

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                               |  |                           |
|---|-------------------------------|--|---------------------------|
| Local Government Type<br><input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Government Name<br><b>City of Muskegon</b>             | County<br><b>Muskegon</b> |
| Audit Date<br><b>12/31/04</b>   | Opinion Date<br><b>3/7/05</b> | Date Accountant Report Submitted to State:<br><b>4/12/05</b> |                           |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

|   | Enclosed                            | To Be Forwarded | Not Required                        |
|---|-------------------------------------|-----------------|-------------------------------------|
| The letter of comments and recommendations.                                   |                                     |                 | <input checked="" type="checkbox"/> |
| Reports on individual federal financial assistance programs (program audits). |                                     |                 | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU).   | <input checked="" type="checkbox"/> |                 |                                     |

|  |  |                         |                               |
|--|--|-------------------------|-------------------------------|
| Certified Public Accountant (Firm Name)<br><b>Brickley DeLong PLC</b>              |  |                         |                               |
| Street Address<br><b>500 Terrace Plaza</b>   |  | City<br><b>Muskegon</b> | State<br><b>MI</b>            |
|  |  | ZIP<br><b>49443</b>     |                               |
| Accountant Signature<br><i>Timothy D. Carter, C.P.A. for Brickley DeLong, PLLC</i> |  |                         | Date<br><i>April 26, 2005</i> |

**CITY OF MUSKEGON,  
MICHIGAN**

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2004**

**Prepared By  
FINANCIAL SERVICES DIVISION**

**Timothy Paul  
Director of Finance**

**Elizabeth Lewis  
Assistant Finance Director**

**Kenneth Grant  
Income Tax Administrator**

**Derrick Smith  
City Treasurer**

**James Maurer  
Information Systems Director**

**Candace Baker  
Kathy Coleman**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**City of Muskegon**  
**December 31, 2004**

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**City of Muskegon**  
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**City of Muskegon**  
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Planning/Zoning  
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6790



March 7, 2005

Honorable Mayor and Members of the  
City Commission  
City of Muskegon  
Muskegon, Michigan 49443

Ladies and Gentlemen:

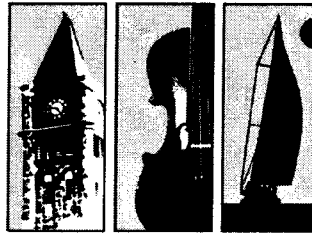
We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the year ended December 31, 2004, in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with the financial statements. The City of Muskegon's MD&A can be found immediately following the independent auditor's report.

The City has elected not to report historic infrastructure or related depreciation costs prior to January 1, 2002 in this report as allowed by GASB 34. GASB 34 requires that this information be included in the City's CAFR by the year ending December 31, 2007; the City, intends to report this information in its 2005 CAFR.

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's finances have been included. Brickley DeLong, P.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

# MUSKEGON



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## THE CITY AND THE REGION

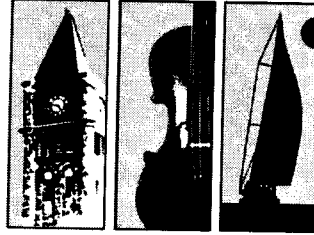
The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of 40,105, is the largest city on the Eastern Shore of Lake Michigan. The City is located within the County of Muskegon and is part of the Grand Rapids-Muskegon-Holland metropolitan statistical area (MSA):

- With West Michigan's diverse industrial sector and excellent intergovernmental cooperation, the area has ranked in the top 30 out of 315 metropolitan communities in Industry Week's World Class Community annual survey for five consecutive years.
- The Muskegon-Grand Rapids-Holland area finished 13th in a national ranking of the 50 best large metropolitan areas for starting and growing a business. The survey produced annually by Cognetics Inc., a Waltham, Massachusetts-based economics research firm, compares the business climates in communities by analyzing significant new business starts and looking at the growth rate of young businesses.
- West Michigan is a fun place to be! Places Rated Almanac ranked the area No. 3 in the fun and recreation category.
- Muskegon's Pere Marquette beach has been nationally recognized as one of the best beaches in the nation by USA Today and was the only beach in the state to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches. In April 2003, The Detroit News voted Muskegon's Beaches #1 as the "Best Place to Run Sand Between Your Toes".
- Muskegon has become a cultural hub for West Michigan with many museums and live performances. The Muskegon Museum of Art has the third best art collection in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of The Frauenthal Center for the Performing Arts to life throughout the year. The Great Lakes Naval Memorial and Museum allows visitors to step back in time and tour the USS Silversides, a surviving World War II submarine.

The City operates under a Commission-Manager form of government and provides the full range of traditional municipal services. These include police and fire protection, parks and recreation activities, public works operations, water and sewer services, parking facilities, solid waste collection, community development and general administrative support services. The City also provides treated water to a number of surrounding communities on a wholesale basis.



# MUSKEGON



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## COMPONENT UNITS

The City has three discretely presented component unit types. These entities are discretely presented in the financial statements as the governing boards of the component units are substantially the same as the City's governing board:

- The Downtown Development Authority (DDA) which exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), which exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries. The City has created three separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA).

## LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Local income tax withholdings remitted by these otherwise tax-exempt employers help provide stability to City finances. According to the W.E. Upjohn Institute, employment growth for Muskegon County in 2004 was 0.1%. The employment growth rate is projected to be 0.7% in 2005 rebounding to 0.9% in 2006.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2004 were the following:

- A new \$18 million high-speed cross-lake ferry service linking Muskegon with Milwaukee, Wisconsin began operating in June. First year results exceeded expectations with more than 110,000 passengers taking the ferry – including 2004 presidential candidate John Kerry. The City and County assisted in this project by providing site improvements costing \$1.85 million. Ferry operations will restart in May 2005.
- Work was completed on phase one of the renovation of a former office equipment manufacturing plant into loft-style condominium units. The obsolete plant comprises nearly one million square feet of space and is well suited for residential living being located directly across from the downtown municipal marina and waterfront. The first phase of this project included construction of 53 one to

# MUSKEGON



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three bedroom condominium units. Construction of the second phase is scheduled to begin in June 2005 and will include 12,000 square feet of commercial retail space.

- Work was completed on construction of the \$11 million extension of Shoreline Drive. The new road is scheduled to be designated as *Business US-31* and will route 23,000 vehicles along the city's downtown waterfront.
- The former Downtown Mall property was substantially demolished and cleared for redevelopment. The 21-acre site will be redeveloped as mixed-use residential and commercial site. The Downtown Muskegon Development Corporation is spearheading this effort and the City and County have assisted through the granting of a tax-free "renaissance zone" status and through financial participation, primarily in the form of state and federal grants. At this time grants have been secured to finance a large portion of construction of the public infrastructure and work will commence in June 2005.

## OTHER INFORMATION

### INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

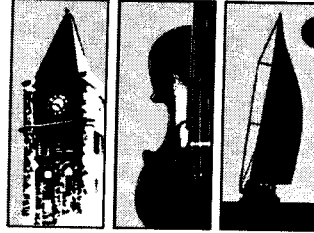
All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

### BUDGETARY CONTROL

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Purchases that result in over expenditure of budget levels are not made until additional appropriations or budget changes are processed to make funds available.

Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

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## DEBT ADMINISTRATION

At December 31, 2004, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$37,220,322 as compared to \$31,778,823 at December 31, 2003. During the year, the City drew down \$8,483,766 through the state's low-interest Drinking Water Revolving Fund to finance water filtration plant improvements. A total of \$13.9 million will be borrowed through this program to complete the filtration plant project. Standard & Poor's has affirmed the City's general obligation debt rating of **A**.

## CASH MANAGEMENT AND INVESTMENTS

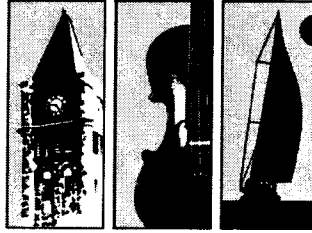
Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investments system. Maturity of investments are timed to meet the City's cash needs. Investment instruments generally consisted of U.S. Treasury Bills and Notes, government agency securities, high quality commercial paper and liquid money-market funds. Daily liquidity needs are managed by investments in money-market funds of all cash not needed in the common checking account to cover checks and other debits presented to the bank for payment that day. The City has contracted with MBIA Municipal Investors Service Corporation to provide full-time, non-discretionary management of the City's operating funds portfolio.

## PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City of Muskegon sponsors two locally-administered defined benefit pension programs: the *Police and Fire Retirement System* for uniformed police and fire personnel and the *General Employees' Retirement System* for all other full-time employees. Each year an independent actuary engaged by the respective pension boards calculates the annual contributions that the city must make to ensure the retirement systems are able to meet current and future obligations. Both of the City's retirement systems are over fifty years old and the City has a longstanding policy of fully funding each year's contribution requirements as determined by the actuary.

The City also provides post-retirement health benefits for retirees and their dependents. Since 1987, the City has also had an actuarial valuation of its post employment healthcare obligation performed each year and has followed a program of prefunding the obligation in the same manner as the pension obligations. GAAP does not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

# MUSKEGON



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## RISK MANAGEMENT

During 2004, the City continued participation in the Michigan Municipal Risk Management Authority (MMRMA), an intergovernmental cooperative self-insurance program. The MMRMA offers secure liability and property insurance coverage with premium stability and broad coverage at a competitive price. The City is insured up to \$15 million with a \$100,000 deductible per occurrence for general, auto, public official and law enforcement liability. Since the City began participating in the MMRMA program in March 1986, total incurred losses and expenses (exclusive of reinsurance recoveries) have been \$7,416,923.

## SINGLE AUDIT

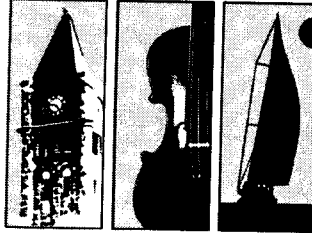
The City is required to have an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations". Information related to the single audit, including the schedule of federal awards, findings and questioned costs, and auditors' reports on internal control over financial reporting and compliance with certain laws, regulations and grants are included herein. The financial activities related to the single audit requirements, such as the Community Development Block Grant Program, are also included in this financial report.

## AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003. This was the nineteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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## ACKNOWLEDGEMENTS

The preparation of this report could not be accomplished without the dedicated and efficient services of the staff of the Financial Services Division and the Muskegon County Print Shop. We would also like to thank the members of the City Commission for their continued interest and support in conducting the financial affairs of the City in a responsible and progressive manner and for their efforts in working for the betterment of the Muskegon community.

Respectfully submitted,

A handwritten signature in cursive script, reading "Bryon L. Mazade".

Bryon L. Mazade  
City Manager

A handwritten signature in cursive script, reading "Timothy J. Paul".

Timothy J. Paul  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muskegon,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



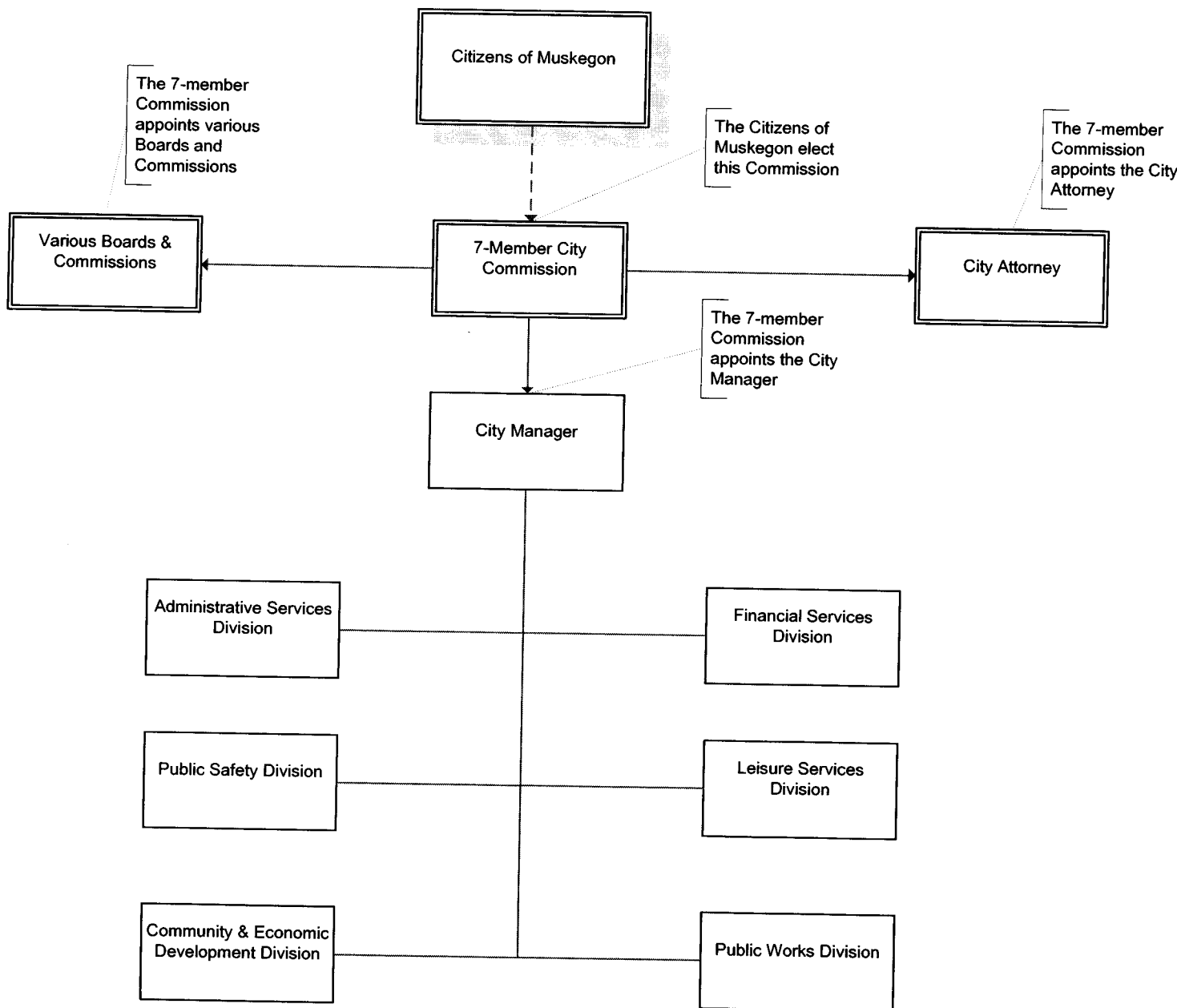
*Nancy L. Ziehl*

President

*Jeffrey R. Emer*

Executive Director

# City Of Muskegon Organizational Chart



**CITY OF MUSKEGON, MICHIGAN  
LIST OF PRINCIPAL OFFICIALS**

**December 31, 2004**

**ELECTED OFFICIALS**

Mayor-Commissioner. . . . . Steve Warmington  
At Large

Vice Mayor-Commissioner. . . . . William Larson  
At Large

Commissioner. . . . . Chris Carter  
Ward 1

Commissioner. . . . . Clara Shepherd  
Ward 2

Commissioner. . . . . Lawrence O. Spataro  
Ward 3

Commissioner. . . . . Kevin Davis  
Ward 4

Commissioner. . . . . Stephen J. Gawron  
At Large

**APPOINTED OFFICIALS**

City Manager. . . . . Bryon L. Mazade

City Attorney. . . . . John C. Schrier

Director of Finance. . . . . Timothy J. Paul



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

March 7, 2005

City Commission  
City of Muskegon  
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, Michigan (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Muskegon, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2005, on our consideration of the City of Muskegon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City Commission  
March 7, 2005  
Page 2

The management's discussion and analysis and the required supplementary information on pages 19 through 29 and 77 through 82 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon, Michigan's basic financial statements. The introductory section, supplemental financial information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon, Michigan. The supplemental financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Brickley DeLong, PLLC*

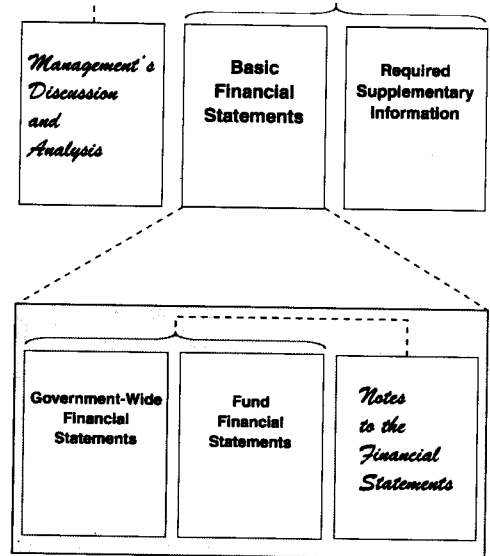
## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2004. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$94,360,144 at December 31, 2004, an increase of \$8,160,148 (9.5%) over the prior year. Most of this increase is attributable to tight cost controls and an increase in water user fees implemented during the year. Of the total net assets, \$16,055,071 was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- During the year, the City's total expenses for both governmental and business-type activities were \$37,958,125, a decrease of \$531,514 (-1.4%) from 2003. Of the total 2004 expenses:
  - \$14,370,405 (38%) was paid through direct charges (such as water fees) to benefiting parties. In 2003, 35% of total expenses were paid from direct charges;
  - \$12,452,103 (33%) was paid by grants and contributions, primarily from the state and federal governments. In 2003 the share of expenses paid from this source was 43%; and
  - The remaining portion was paid from state shared revenues, local income and property taxes, and other locally generated revenues.
- The City's general fund reported a fund balance of \$2,445,191, a slight increase of \$13,773 from the prior year. The City also maintained a budget stabilization (or "rainy day") fund that reported a fund balance of \$1.25 million at December 31, 2004, a decrease of \$250,000 from 2003.
- During 2004, the City issued \$13.9 million in Drinking Water State Revolving Fund (DWSRF) debt. These funds are being used to finance improvements at the City's water filtration facility.

Figure A-1, Required Components of the City's Annual Financial Report



### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required*

supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the

information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements

| Type of Statements                     | Fund Statements  |  |   |  |
|--|--|--|---|--|
|  | Government-Wide  | Governmental Funds   | Proprietary Funds   | Fiduciary Funds  |
| Scope                                  | Entire City government (except fiduciary funds) and the City's component units     | The activities of the City that are not proprietary or fiduciary   | Activities the City operates similar to private businesses.                                   | Instances in which the City is the trustee or agent for someone else's resources   |
| Required financial statements          | • Statement of net assets  | • Balance sheet  | • Statement of net assets   | • Statement of fiduciary net assets  |
|  | • Statement of activities  | • Statement of revenues, expenditures & changes in fund balances   | • Statement of revenues, expenses and changes in fund net assets<br>• Statement of cash flows | • Statement of changes in fiduciary net assets   |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus                                    | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus   | Accrual accounting and economic resources focus  |
| Type of asset/liability information    | All assets and liabilities, both financial and capital, short-term and long-term   | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included  | All assets and liabilities, both financial and capital, and short-term and long-term          | All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information     | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid            | All revenues and expenses during year, regardless of when cash is received or paid   |

statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

## Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, parks and recreation, and interest on long-term debt. Income taxes, property taxes and revenues from the State of Michigan finance most of these activities. The government-wide financial statements can be found beginning on page 32 of this report.

## Fund Financial Statements

The fund financial statements beginning on page 34 provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law or other legal requirements.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine

whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.
- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes three component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA) and, the Local Development Finance Authority (LDFA), which contains three sub-districts. Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

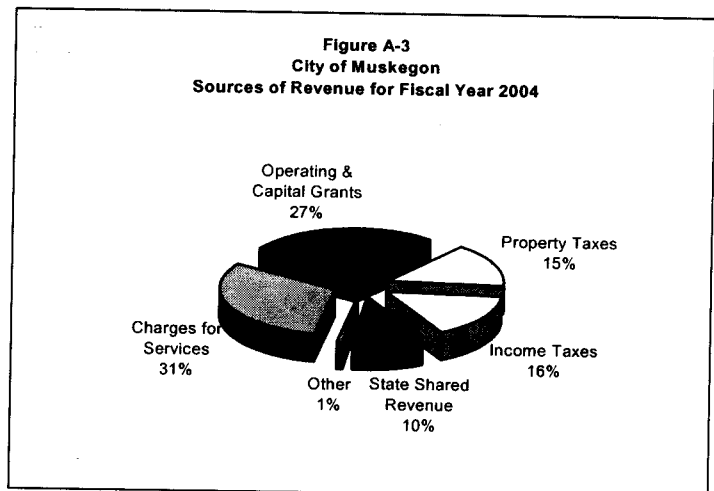
## **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net assets.** The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. A summary of the City's net assets follows:

| City's Net Assets<br>(In thousands of dollars)     |                            |                 |                             |                 |                 |                 |                               |
|--|----------------------------|-----------------|-----------------------------|-----------------|-----------------|-----------------|-------------------------------|
|  | Governmental<br>Activities |                 | Business-Type<br>Activities |                 | Total           |                 | Total<br>Percentage<br>Change |
|  | 2004                       | 2003            | 2004                        | 2003            | 2004            | 2003            | 2004-2003                     |
| Current and other assets                           | \$28,758                   | \$32,654        | \$13,645                    | \$13,539        | \$42,403        | \$46,193        | -8.2%                         |
| Capital assets                                     | 46,420                     | 39,203          | 52,488                      | 41,352          | 98,908          | 80,555          | 22.8%                         |
| <b>Total Assets</b>                                | <b>75,178</b>              | <b>71,857</b>   | <b>66,133</b>               | <b>54,891</b>   | <b>141,311</b>  | <b>126,748</b>  | <b>11.5%</b>                  |
| Long-term liabilities                              | 7,389                      | 8,615           | 22,283                      | 15,328          | 29,672          | 23,943          | 23.9%                         |
| Other liabilities                                  | 14,508                     | 16,161          | 2,772                       | 444             | 17,280          | 16,605          | 4.1%                          |
| <b>Total Liabilities</b>                           | <b>21,897</b>              | <b>24,776</b>   | <b>25,055</b>               | <b>15,772</b>   | <b>46,952</b>   | <b>40,548</b>   | <b>15.8%</b>                  |
| Net Assets   |                            |                 |                             |                 |                 |                 |                               |
| Invested in capital assets,<br>net of related debt | 40,664                     | 32,120          | 31,609                      | 27,809          | 72,273          | 59,929          | 20.6%                         |
| Restricted   | 5,210                      | 5,674           | 822                         | 822             | 6,032           | 6,496           | -7.1%                         |
| Unrestricted                                       | 7,407                      | 9,287           | 8,648                       | 10,488          | 16,055          | 19,775          | -18.8%                        |
| <b>Total Net Assets</b>                            | <b>\$53,281</b>            | <b>\$47,081</b> | <b>\$41,079</b>             | <b>\$39,119</b> | <b>\$94,360</b> | <b>\$86,200</b> | <b>9.5%</b>                   |

The total net assets of the City were \$94,360,144 as of December 31, 2004. This represents an increase of \$8,160,148 over the prior year. This change is explained more fully below.

**Changes in net assets.** The City's total revenues were \$46,118,273. A significant portion (31%) of the City's revenue stream came from charges to users of specific services such as water or sewer (See Figure A-3). Another twenty-seven percent came from various grants from the state and federal governments and thirty-one percent was from local property and income taxes. The remainder was comprised of state-shared revenues (10%) and various other sources such as interest income.



The total cost of all City programs and services during 2004 was \$37,958,125, representing a decrease of \$531,514 from 2003. Seventy-eight percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-two percent represents business-type activities operated by the City, specifically, for water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$8,160,148) represents the increase in total net assets for 2004. The increase is primarily attributable to a combination of tight cost controls, an increase in water user charges, and receipt of grants to finance infrastructure improvements. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into year-to-year changes in individual revenue and expense categories:

| Changes in City's Net Assets<br>(In thousands of dollars) |                            |                 |                             |                 |                 |                 |                               |
|---|----------------------------|-----------------|-----------------------------|-----------------|-----------------|-----------------|-------------------------------|
|   | Governmental<br>Activities |                 | Business-Type<br>Activities |                 | Total           |                 | Total<br>Percentage<br>Change |
|   | 2004                       | 2003            | 2004                        | 2003            | 2004            | 2003            | 2004-2003                     |
| Program revenues  |                            |                 |                             |                 |                 |                 |                               |
| Charges for services                                      | \$5,043                    | \$4,917         | \$9,328                     | \$8,463         | \$14,371        | \$13,380        | 7.4%                          |
| Operating grants and contributions                        | 6,009                      | 5,614           | -                           | -               | 6,009           | 5,614           | 7.0%                          |
| Capital grants and contributions                          | 5,786                      | 10,495          | 658                         | 256             | 6,444           | 10,751          | -40.1%                        |
| General revenues  |                            |                 |                             |                 |                 |                 |                               |
| Property taxes  | 6,962                      | 7,029           | -                           | -               | 6,962           | 7,029           | -1.0%                         |
| Income taxes  | 7,327                      | 6,645           | -                           | -               | 7,327           | 6,645           | 10.3%                         |
| State shared revenues                                     | 4,645                      | 4,939           | -                           | -               | 4,645           | 4,939           | -6.0%                         |
| All other   | 167                        | 719             | 194                         | (17)            | 361             | 702             | -48.6%                        |
| <b>Total revenues</b>                                     | <b>35,939</b>              | <b>40,358</b>   | <b>10,180</b>               | <b>8,702</b>    | <b>46,119</b>   | <b>49,060</b>   | <b>-6.0%</b>                  |
| Governmental activities expenses                          |                            |                 |                             |                 |                 |                 |                               |
| Public representation                                     | 867                        | 888             | -                           | -               | 867             | 888             | -2.4%                         |
| Administrative services                                   | 1,132                      | 1,228           | -                           | -               | 1,132           | 1,228           | -7.8%                         |
| Financial services  | 1,809                      | 1,843           | -                           | -               | 1,809           | 1,843           | -1.8%                         |
| Public safety   | 12,164                     | 11,583          | -                           | -               | 12,164          | 11,583          | 5.0%                          |
| Public works  | 2,848                      | 2,947           | -                           | -               | 2,848           | 2,947           | -3.4%                         |
| Leisure services  | 2,468                      | 3,042           | -                           | -               | 2,468           | 3,042           | -18.9%                        |
| Planning and economic development                         | 2,653                      | 3,371           | -                           | -               | 2,653           | 3,371           | -21.3%                        |
| Highways, streets and bridges                             | 3,880                      | 3,483           | -                           | -               | 3,880           | 3,483           | 11.4%                         |
| General administration                                    | 1,725                      | 1,601           | -                           | -               | 1,725           | 1,601           | 7.7%                          |
| Interest on long-term debt                                | 193                        | 224             | -                           | -               | 193             | 224             | -13.8%                        |
| Business-type activities expenses                         |                            |                 |                             |                 |                 |                 |                               |
| Water   | -                          | -               | 4,123                       | 4,538           | 4,123           | 4,538           | -9.1%                         |
| Sewer   | -                          | -               | 3,745                       | 3,416           | 3,745           | 3,416           | 9.6%                          |
| Marina  | -                          | -               | 352                         | 326             | 352             | 326             | 8.0%                          |
| <b>Total expenses</b>                                     | <b>29,739</b>              | <b>30,210</b>   | <b>8,220</b>                | <b>8,280</b>    | <b>37,959</b>   | <b>38,490</b>   | <b>-1.4%</b>                  |
| <b>Change in net assets</b>                               | <b>6,200</b>               | <b>10,148</b>   | <b>1,960</b>                | <b>422</b>      | <b>8,160</b>    | <b>10,570</b>   | <b>-22.8%</b>                 |
| Net assets at beginning of year                           | 47,081                     | 36,933          | 39,119                      | 38,697          | 86,200          | 75,630          | 14.0%                         |
| <b>Net assets at end of year</b>                          | <b>\$53,281</b>            | <b>\$47,081</b> | <b>\$41,079</b>             | <b>\$39,119</b> | <b>\$94,360</b> | <b>\$86,200</b> | <b>9.5%</b>                   |

### Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and related intergovernmental aid). The net cost reflects what was funded by local tax dollars and other general resources.

- The operational cost of all governmental activities during 2004 was \$29,738,442. This is a slight decrease from 2003 as the City continued to reduce costs in response to economic conditions and falling state-shared revenues.
- The net cost that City taxpayers paid for these activities through local taxes was \$14,289,264, or about 48% of the total.
- The remaining cost was paid by user charges to those who directly benefit from the programs or by state and federal grants and contributions.
- Revenues for highways and streets function exceeded program costs because the City's historic infrastructure or related depreciation costs are not yet recorded. GASB 34 requires that this information be reported by the year ending December 31, 2007. The City plans to include this information in the 2005 CAFR.



**Net Cost of Selected City Functions**  
(in thousands of dollars)

|                                   | Total Cost of Services |          | % Change | Net Cost of Services |          | % Change |
|-----------------------------------|------------------------|----------|----------|----------------------|----------|----------|
|                                   | 2004                   | 2003     |          | 2004                 | 2003     |          |
| Governmental activities           |                        |          |          |                      |          |          |
| Public safety                     | \$12,164               | \$11,583 | 5.0%     | \$10,814             | \$10,210 | 5.9%     |
| Planning and economic development | 2,652                  | 3,371    | -21.3%   | (994)                | (351)    | 183.2%   |
| Leisure services                  | 2,468                  | 3,042    | -18.9%   | 1,117                | 1,717    | -34.9%   |
| Highways and streets              | 3,879                  | 3,483    | 11.4%    | (4,186)              | (9,220)  | -54.6%   |
| Public works                      | 2,848                  | 2,947    | -3.4%    | 1,858                | 2,290    | -18.9%   |
| All other                         | 5,728                  | 5,784    | -1.0%    | 4,292                | 4,538    | -5.4%    |
| Total governmental activities     | \$29,739               | \$30,210 | -1.6%    | \$12,901             | \$9,184  | 40.5%    |

### Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For 2004 this goal was achieved with the City's total business-type activities realizing an overall increase in net assets of \$1,959,918. These funds were used to pay debt principal and invest in capital assets.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The analysis of the City's major funds begins on page 34 of the CAFR report, following the government-wide statements. The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for 2004 were the general fund and the major and local street funds.

### General Fund Budgetary Highlights

The general fund receives the most public attention since it is where local tax revenues are accounted for and where the most popular municipal services such as police, fire and parks are funded. The City reforecasts its general fund budget on a quarterly basis to take into account changing economic conditions and policy priorities. The quarterly budget reforecasts were particularly relevant in 2004 due to the turbulent state and national economies. A \$250,000 transfer from the City's rainy day fund was needed at year-end to offset state shared revenue losses and maintain the City's target fund balance. The following table shows the general fund year-end fund balance for the last five years:

| Year | Year-End Fund Balance | Year-to-Year % Change | Prior Year's Expenditures and Other Uses | Fund Balance as a % of Prior Year Expenditures (Policy Target = 10%) |
|------|-----------------------|-----------------------|--|--|
| 2004 | \$2,445,191           | +0.5%                 | \$ 23,705,334                            | 10.31%   |
| 2003 | 2,431,418             | -13.4%                | 23,971,536                               | 10.14%   |
| 2002 | 2,807,996             | -11.2%                | 23,235,978                               | 12.08%   |
| 2001 | 3,162,368             | +7.1%                 | 22,232,657                               | 14.22%   |
| 2000 | 2,951,735             | -                     | 22,011,881                               | 13.41%   |

Actual 2004 general fund expenditures were \$430,022 below original budget amount. Most of this variance occurred in the areas of salaries, benefits and other operating costs as the City continued to manage its way through a difficult economy.

General fund revenues in 2004 were \$440,724 more than originally budgeted. The positive variance is attributable to higher than anticipated local income tax collections resulting from stringent enforcement and the success of an amnesty program for delinquent taxpayers. Under this program, delinquent taxpayers were given a short-term, one-time opportunity to bring accounts current without penalty. The higher than expected income tax revenues helped to offset other revenues losses. Most significantly, state shared revenues were \$354,652 under original budget due to continued faltering state sales tax collections and cutbacks by the state.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2004, the City and its component units had invested \$102,920,150 in a wide range of capital assets, including land, equipment, buildings, water and sewer lines, and vehicles. In addition the City reports infrastructure assets, including roads, bridges, sidewalks, and storm sewers acquired or improved since the start of 2002. In future years, the City will also include historical infrastructure asset investments made between 1980 and 2002. Note C of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

The City's fiscal year 2005 capital budget anticipates spending \$18,454,400 for capital projects principally street and water system improvements. These improvements will be funded through grants, loan proceeds, and operating revenues.

#### **Bond Ratings**

The City's limited full faith and credit bonds (i.e. bonds guaranteed by the City's general taxing powers) presently carry a Standard & Poors rating of "A".

### **Long-Term Debt**

At year-end the City had \$27,926,199 in bonds and notes outstanding as shown below. This represents an increase of 25.2% over the prior year as new water fund debt in the amount of \$13.9 million was issued for the purpose of financing water filtration plant improvements. Of the total \$13.9 million, \$8,483,766 was drawn during 2004; the remaining \$5,416,214 will be drawn in 2005 to complete the project. Additional information concerning the City's long-term debt is presented in Note D to the basic financial statements.

| City's Long Term Debt<br>(In thousands of dollars) |                            |              |                             |             |              |              |                               |
|--|----------------------------|--------------|-----------------------------|-------------|--------------|--------------|-------------------------------|
|  | Governmental<br>Activities |              | Business-Type<br>Activities |             | Total        |              | Total<br>Percentage<br>Change |
|  | <u>2004</u>                | <u>2003</u>  | <u>2004</u>                 | <u>2003</u> | <u>2004</u>  | <u>2003</u>  | <u>2004-2003</u>              |
| Bonds and loans payable                            | \$5,821                    | \$7,159      | \$22,105                    | \$15,138    | \$27,926     | \$22,297     | 25.2%                         |
| Long-term absences payable                         | <u>1,568</u>               | <u>1,456</u> | <u>178</u>                  | <u>190</u>  | <u>1,746</u> | <u>1,646</u> | 6.1%                          |
| Total bonds & notes payable                        | \$7,389                    | \$8,615      | \$22,283                    | \$15,328    | \$29,672     | \$23,943     | 23.9%                         |

In addition to the City's debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$9,206,982 at year-end as shown in the table below. Debt issued by the component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note D to the basic financial statements and is summarized as follows:

| Component Unit Long Term Debt<br>(In thousands of dollars) |                               |             |  |             |             |             |                               |
|--|-------------------------------|-------------|--|-------------|-------------|-------------|-------------------------------|
|  | Downtown<br>Finance Authority |             | Local Development<br>Finance Authority |             | Total       |             | Total<br>Percentage<br>Change |
|  | <u>2004</u>                   | <u>2003</u> | <u>2004</u>                            | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004-2003</u>              |
| Bonds and loans payable                                    | \$4,490                       | \$4,670     | \$4,716                                | \$4,716     | \$9,206     | \$9,386     | -1.9%                         |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City depends on five major sources of revenue to fund its operations: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for nearly seventy percent of the City's total 2004 revenues. Meaningful discussion of the City's finances centers on the outlook for these major income sources.

### *Local Income Tax*

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The tax rate is 1% on city residents and ½ of 1% on non-residents who work in the city. The income tax provides key advantages for urban core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services and by allowing the City to benefit from development occurring outside the City limits. A second major advantage is that it generates revenue from employees working at hospitals, churches, government agencies, colleges and other institutions traditionally exempted from paying property taxes. This is particularly important for Muskegon since six of the ten largest income tax sources are such institutions. Income tax revenues increased from \$6,542,355 in 2003 to \$7,033,387 for 2004 (+7.5%) due primarily to aggressive compliance efforts including a successful, one-time delinquent taxpayer

amnesty program. For 2005, the City is conservatively estimating income tax revenues at \$6,650,000. The following table shows the resident and non-resident composition of the income tax base:

| Category      | Number of Payers | 2004 Amount Paid | Percent of Total | Average Amount Paid |
|---------------|------------------|------------------|------------------|---------------------|
| City Resident | 7,985            | \$ 2,350,485     | 33%              | \$ 294              |
| Non-Resident  | 14,543           | 3,868,363        | 55%              | 266                 |
| Corporate     | 1,850            | 814,539          | 12%              | 440                 |
| Total         | 24,378           | \$7,033,387      | 100%             | \$ 289              |

### *Local Property Tax*

The City's 2004 property tax millage consisted of 10 mills: 7.5 mills for general operations and 2.5 mills levied for sanitation. City charter authorizes a general operating millage up to 10 mills and state law permits a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy. As shown below, taxable values have been relatively stagnant over the last few years.

| Year | Real          | Personal      | Total         | Percent Change |
|------|---------------|---------------|---------------|----------------|
| 2004 | \$661,233,389 | \$168,106,228 | \$829,339,617 | -1.2%          |
| 2003 | 661,692,712   | 177,348,400   | 839,041,112   | +1.6%          |
| 2002 | 638,624,250   | 187,393,600   | 826,017,850   | +1.6%          |
| 2001 | 601,420,300   | 211,503,600   | 812,923,900   | +12.3%         |

### *State Shared Revenues*

State shared sales tax revenues represent 19.9% of total general fund revenue and other financing sources. The City's state shared revenue allocation is made up of two approximately equal parts. The constitutional component is a fixed percentage of total state sales tax collections that cannot be reduced by the legislature. The statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. Over the last several years, state shared revenues have fallen sharply due to the faltering economy and to executive order budget cuts in the statutory share. The most recent data available from the state indicates that the state shared revenues will remain at current level for 2005. The City's recent state shared revenue history is summarized below:

| Year            | State Shared Revenues | Percent Change |
|-----------------|-----------------------|----------------|
| 2005*           | \$4,688,657           | +0.9%          |
| 2004            | 4,645,348             | -5.9%          |
| 2003            | 4,938,861             | -7.8%          |
| 2002            | 5,353,987             | -6.9%          |
| 2001            | 5,748,523             | -              |
| * Budget amount |                       |                |

Continued erosion of the state shared revenue component constitutes the single biggest threat to the stability of City finances at this time. Due to the local income tax, Muskegon is somewhat less dependent on this revenue source than most Michigan cities.

### *Street Funds*

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have:

| Year              | Street Revenues<br>from State | Percent<br>Change |
|-------------------|-------------------------------|-------------------|
| 2005*             | \$3,537,574                   | +2.3%             |
| 2004              | 3,459,503                     | +9.2%             |
| 2003              | 3,166,406                     | -1.7%             |
| 2002              | 3,220,625                     | +1.9%             |
| 2001              | 3,159,325                     | -                 |
| * Budgeted amount |                               |                   |

### *Water and Sewer Fees*

From a government-wide entity perspective, combined water and sewer fees represent the City's largest income source totaling \$9,060,911 in 2004. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. For 2005, it is anticipated that water and sewer rates will be adjusted upwards to finance major capital improvements at the water filtration plant.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City's component units, contact the City's Finance Department at (231) 724-6713 or by e-mail ([finance@shorelinecity.com](mailto:finance@shorelinecity.com)).

## **FINANCIAL STATEMENTS**

**City of Muskegon**  
**STATEMENT OF NET ASSETS**  
**December 31, 2004**

|  | Primary Government      |                          |                       |                     |                        |
|--|-------------------------|--------------------------|-----------------------|---------------------|------------------------|
|  | Governmental Activities | Business-Type Activities | Total                 | Component Units     | Total Reporting Entity |
| <b>ASSETS</b>  |                         |                          |                       |                     |                        |
| Cash and cash equivalents (note A and B)   | \$ 4,915,403            | \$ 5,042,717             | \$ 9,958,120          | \$ 925,703          | \$ 10,883,823          |
| Investments (note A and B)   | 7,632,588               | -                        | 7,632,588             | -                   | 7,632,588              |
| Receivables (net of allowance for uncollectibles) (note A)                           |                         |                          |                       |                     |                        |
| Accounts and loans   | 1,785,554               | 2,297,435                | 4,082,989             | -                   | 4,082,989              |
| Special assessments  |                         |                          |                       |                     |                        |
| Current  | 443,954                 | -                        | 443,954               | -                   | 443,954                |
| Non-current  | 3,718,728               | -                        | 3,718,728             | -                   | 3,718,728              |
| Taxes  |                         |                          |                       |                     |                        |
| Property   | 6,444,950               | -                        | 6,444,950             | 709,847             | 7,154,797              |
| Income   | 2,509,611               | -                        | 2,509,611             | -                   | 2,509,611              |
| Internal balances  | (1,298,315)             | 1,298,315                | -                     | -                   | -                      |
| Due from other governmental units  | 2,259,123               | 57,432                   | 2,316,555             | -                   | 2,316,555              |
| Inventories (note A)   | 18,270                  | 108,769                  | 127,039               | -                   | 127,039                |
| Prepaid items (note A)   | 263,172                 | 22,086                   | 285,258               | -                   | 285,258                |
| Restricted cash and cash equivalents (note A and B)                                  | -                       | 822,559                  | 822,559               | -                   | 822,559                |
| Deferred debt expense (note A)   | 64,892                  | 130,895                  | 195,787               | 129,621             | 325,408                |
| Contract receivable (note A)   | -                       | 2,770,434                | 2,770,434             | -                   | 2,770,434              |
| Wastewater facility rights (net of accumulated amortization of \$2,369,748) (note A) | -                       | 1,094,345                | 1,094,345             | -                   | 1,094,345              |
|  | 28,757,930              | 13,644,987               | 42,402,917            | 1,765,171           | 44,168,088             |
| Capital assets (note A and C)  |                         |                          |                       |                     |                        |
| Land, construction in progress and other assets not being depreciated                | 19,161,190              | 18,991,429               | 38,152,619            | 400,000             | 38,552,619             |
| Other capital assets, net of depreciation  | 27,259,255              | 33,497,053               | 60,756,308            | 3,611,223           | 64,367,531             |
| Total capital assets   | 46,420,445              | 52,488,482               | 98,908,927            | 4,011,223           | 102,920,150            |
| <b>TOTAL ASSETS</b>  | <b>\$ 75,178,375</b>    | <b>\$ 66,133,469</b>     | <b>\$ 141,311,844</b> | <b>\$ 5,776,394</b> | <b>\$ 147,088,238</b>  |
| <b>LIABILITIES AND NET ASSETS</b>  |                         |                          |                       |                     |                        |
| <b>Liabilities</b>   |                         |                          |                       |                     |                        |
| Accounts payable   | \$ 1,521,137            | \$ 2,392,167             | \$ 3,913,304          | \$ -                | \$ 3,913,304           |
| Accrued payroll  | 427,773                 | 59,667                   | 487,440               | -                   | 487,440                |
| Accrued interest   | 20,800                  | 105,000                  | 125,800               | 48,400              | 174,200                |
| Due to other governmental units  | -                       | 214,825                  | 214,825               | -                   | 214,825                |
| Deferred revenue (note A)  | 12,538,527              | -                        | 12,538,527            | 709,847             | 13,248,374             |
|  | 14,508,237              | 2,771,659                | 17,279,896            | 758,247             | 18,038,143             |
| Long-term liabilities (note A and D)   |                         |                          |                       |                     |                        |
| Due within one year  |                         |                          |                       |                     |                        |
| Bonds payable  | 1,115,000               | 1,515,974                | 2,630,974             | 185,000             | 2,815,974              |
| Compensated absences   | 261,299                 | 30,228                   | 291,527               | -                   | 291,527                |
| Due in more than one year  |                         |                          |                       |                     |                        |
| Bonds payable  | 4,706,493               | 20,588,732               | 25,295,225            | 9,021,982           | 34,317,207             |
| Compensated absences   | 1,306,493               | 147,585                  | 1,454,078             | -                   | 1,454,078              |
| Total long-term liabilities  | 7,389,285               | 22,282,519               | 29,671,804            | 9,206,982           | 38,878,786             |
| Total liabilities  | 21,897,522              | 25,054,178               | 46,951,700            | 9,965,229           | 56,916,929             |
| Net assets (note A)  |                         |                          |                       |                     |                        |
| Invested in capital assets, net of related debt                                      | 40,663,844              | 31,609,016               | 72,272,860            | (576,138)           | 71,696,722             |
| Restricted for   |                         |                          |                       |                     |                        |
| Streets and highways   | 4,016,739               | -                        | 4,016,739             | -                   | 4,016,739              |
| Debt service   | -                       | 822,559                  | 822,559               | -                   | 822,559                |
| Perpetual care   |                         |                          |                       |                     |                        |
| Expendable   | 22,896                  | -                        | 22,896                | -                   | 22,896                 |
| Non-expendable   | 1,170,019               | -                        | 1,170,019             | -                   | 1,170,019              |
| Unrestricted   | 7,407,355               | 8,647,716                | 16,055,071            | (3,612,697)         | 12,442,374             |
| Total net assets   | 53,280,853              | 41,079,291               | 94,360,144            | (4,188,835)         | 90,171,309             |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 75,178,375</b>    | <b>\$ 66,133,469</b>     | <b>\$ 141,311,844</b> | <b>\$ 5,776,394</b> | <b>\$ 147,088,238</b>  |

The accompanying notes are an integral part of this statement.

City of Muskegon  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2004

| Functions/Programs                      | Program Revenues |                      |                                    |                                  |                         | Net (Expense) Revenue and Change in Net Assets |                 |               |                        |
|---|------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--|-----------------|---------------|------------------------|
|   | Expenses         | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government                             |                 |               | Total Reporting Entity |
|   |                  |                      |                                    |                                  |                         | Business-Type Activities                       | Component Units | Total         |                        |
| Primary government                      |                  |                      |                                    |                                  |                         |  |                 |               |                        |
| Public representation services          | \$ 866,669       | \$ 210,238           | \$ -                               | \$ -                             | \$ (656,431)            | \$ -   | \$ -            | \$ (656,431)  | \$ -                   |
| Administrative services                 | 1,132,229        | 314,028              | 8,000                              | -                                | (810,201)               | -  | -               | (810,201)     | (810,201)              |
| Financial services                      | 1,809,136        | 645,166              | -                                  | -                                | (1,163,970)             | -  | -               | (1,163,970)   | (1,163,970)            |
| Public safety                           | 12,164,389       | 1,098,793            | 251,439                            | -                                | (10,814,157)            | -  | -               | (10,814,157)  | (10,814,157)           |
| Public works                            | 2,847,755        | 452,606              | 348,464                            | 188,960                          | (1,857,725)             | -  | -               | (1,857,725)   | (1,857,725)            |
| Leisure services                        | 2,468,059        | 1,151,687            | 21,980                             | 177,205                          | (1,117,187)             | -  | -               | (1,117,187)   | (1,117,187)            |
| Planning and economic development       | 2,652,497        | 414,543              | 1,864,874                          | 1,366,846                        | 993,766                 | -  | -               | 993,766       | 993,766                |
| Highways, streets and bridges           | 3,879,462        | 555,018              | 3,458,221                          | 4,052,593                        | 4,186,370               | -  | -               | 4,186,370     | 4,186,370              |
| General administration                  | 1,725,225        | 200,434              | 56,000                             | -                                | (1,468,791)             | -  | -               | (1,468,791)   | (1,468,791)            |
| Interest on long-term debt              | 193,021          | -                    | -                                  | -                                | (193,021)               | -  | -               | (193,021)     | (193,021)              |
| Total governmental activities           | 29,738,442       | 5,042,513            | 6,008,978                          | 5,785,604                        | (12,901,347)            | -  | -               | (12,901,347)  | (12,901,347)           |
| Business-type activities                |                  |                      |                                    |                                  |                         |  |                 |               |                        |
| Water                                   | 4,122,822        | 4,977,320            | -                                  | 348,208                          | -                       | 1,202,706                                      | -               | 1,202,706     | 1,202,706              |
| Sewer                                   | 3,745,156        | 4,083,591            | -                                  | 297,925                          | -                       | 636,360  | -               | 636,360       | 636,360                |
| Marina and launch ramp                  | 351,705          | 266,981              | -                                  | 11,388                           | -                       | (73,336)                                       | -               | (73,336)      | (73,336)               |
| Total business-type activities          | 8,219,683        | 9,327,892            | -                                  | 657,521                          | -                       | 1,765,730                                      | -               | 1,765,730     | 1,765,730              |
| Total primary government                | \$ 37,958,125    | \$ 14,370,405        | \$ 6,008,978                       | \$ 6,443,125                     | (12,901,347)            | 1,765,730                                      | -               | (11,135,617)  | (11,135,617)           |
| Component units                         |                  |                      |                                    |                                  |                         |  |                 |               |                        |
| Local Development Finance Authority I   | \$ -             | \$ -                 | \$ -                               | \$ -                             | -                       | -  | -               | -             | -                      |
| Local Development Finance Authority II  | 399              | -                    | -                                  | -                                | -                       | -  | (399)           | -             | (399)                  |
| Local Development Finance Authority III | 384,897          | -                    | -                                  | -                                | -                       | -  | (384,897)       | -             | (384,897)              |
| Downtown Development Authority          | 275,827          | -                    | -                                  | -                                | -                       | -  | (275,827)       | -             | (275,827)              |
| Tax Increment Finance Authority         | 56,000           | -                    | -                                  | -                                | -                       | -  | (56,000)        | -             | (56,000)               |
| Total component units                   | \$ 717,123       | \$ -                 | \$ -                               | \$ -                             | -                       | -  | (717,123)       | -             | (717,123)              |
| General revenues                        |                  |                      |                                    |                                  |                         |  |                 |               |                        |
| Property taxes                          |                  |                      |                                    |                                  | 6,962,453               | -  | 754,846         | 6,962,453     | 7,717,299              |
| Income taxes                            |                  |                      |                                    |                                  | 7,326,811               | -  | -               | 7,326,811     | 7,326,811              |
| State shared revenues                   |                  |                      |                                    |                                  | 4,645,348               | -  | -               | 4,645,348     | 4,645,348              |
| Investment earnings                     |                  |                      |                                    |                                  | 170,094                 | 51,768   | -               | 221,862       | 244,957                |
| Miscellaneous                           |                  |                      |                                    |                                  | 68,405                  | -  | 23,095          | 68,405        | 68,405                 |
| Gain (loss) on sale of capital assets   |                  |                      |                                    |                                  | 70,886                  | -  | -               | 70,886        | -                      |
| Transfers                               |                  |                      |                                    |                                  | (142,420)               | 142,420  | -               | -             | -                      |
| Total general revenues and transfers    |                  |                      |                                    |                                  | 19,101,577              | 194,188  | 777,941         | 19,295,765    | 20,002,820             |
| Change in net assets                    |                  |                      |                                    |                                  | 6,200,230               | 1,959,918                                      | 60,818          | 8,160,148     | 8,220,966              |
| Net assets at beginning of year         |                  |                      |                                    |                                  | 47,080,623              | 39,119,373                                     | (4,249,653)     | 86,195,996    | 81,950,343             |
| Net assets at end of year               |                  |                      |                                    |                                  | \$ 53,280,853           | \$ 41,079,291                                  | \$ 94,360,144   | \$ 94,360,144 | \$ 90,171,309          |

The accompanying notes are an integral part of this statement.



**City of Muskegon  
Governmental Funds**

**BALANCE SHEET**

**December 31, 2004**

|   | General              | Major Street<br>and Trunkline | Local Street        | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|-------------------------------|---------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>   |                      |                               |                     |                                |                                |
| Cash and cash equivalents (note A and B)                      | \$ 6,017             | \$ -                          | \$ 129,449          | \$ 2,057,114                   | \$ 2,192,580                   |
| Investments (note A and B)                                    | 6,432,350            | -                             | -                   | 1,200,238                      | 7,632,588                      |
| Receivables (net of allowance for<br>uncollectibles) (note A) |                      |                               |                     |                                |                                |
| Accounts and loans  | 581,298              | 34,620                        | -                   | 859,653                        | 1,475,571                      |
| Special assessment  | -                    | 1,295,259                     | 1,738,528           | 1,128,895                      | 4,162,682                      |
| Taxes   |                      |                               |                     |                                |                                |
| Property  | 6,444,950            | -                             | -                   | -                              | 6,444,950                      |
| Income  | 1,624,611            | -                             | -                   | -                              | 1,624,611                      |
| Due from other funds (note E)                                 | 1,321,441            | 5,207,840                     | -                   | 1,250,000                      | 7,779,281                      |
| Due from other governmental units                             | 855,149              | 432,985                       | 104,123             | 866,866                        | 2,259,123                      |
| Prepaid items (note A)  | 64,349               | 20,424                        | 5,026               | 2,193                          | 91,992                         |
| <b>TOTAL ASSETS</b>   | <b>\$ 17,330,165</b> | <b>\$ 6,991,128</b>           | <b>\$ 1,977,126</b> | <b>\$ 7,364,959</b>            | <b>\$ 33,663,378</b>           |
| <b>LIABILITIES AND FUND BALANCES</b>                          |                      |                               |                     |                                |                                |
| <b>Liabilities</b>  |                      |                               |                     |                                |                                |
| Accounts payable  | \$ 467,708           | \$ 618,941                    | \$ 6,431            | \$ 89,078                      | \$ 1,182,158                   |
| Accrued payroll   | 341,754              | 31,450                        | 17,546              | 6,995                          | 397,745                        |
| Due to other funds (note E)                                   | 6,448,026            | -                             | -                   | 842,348                        | 7,290,374                      |
| Deferred revenue (note A)                                     | 7,627,486            | 5,374,572                     | 1,688,021           | 1,567,175                      | 16,257,254                     |
| <b>Total liabilities</b>                                      | <b>14,884,974</b>    | <b>6,024,963</b>              | <b>1,711,998</b>    | <b>2,505,596</b>               | <b>25,127,531</b>              |
| <b>Fund balances (note A)</b>                                 |                      |                               |                     |                                |                                |
| Reserved for  |                      |                               |                     |                                |                                |
| Prepaid items   | 64,349               | 20,424                        | 5,026               | 2,193                          | 91,992                         |
| Endowments  | 10,000               | -                             | -                   | 1,160,019                      | 1,170,019                      |
| Unreserved  |                      |                               |                     |                                |                                |
| Designated, reported in (note L)                              |                      |                               |                     |                                |                                |
| Capital project funds   | -                    | -                             | -                   | 476,113                        | 476,113                        |
| Undesignated, reported in                                     |                      |                               |                     |                                |                                |
| General fund  | 2,370,842            | -                             | -                   | -                              | 2,370,842                      |
| Special revenue funds   | -                    | 945,741                       | 260,102             | 1,486,588                      | 2,692,431                      |
| Capital projects funds  | -                    | -                             | -                   | 1,711,554                      | 1,711,554                      |
| Permanent fund  | -                    | -                             | -                   | 22,896                         | 22,896                         |
| <b>Total fund balances</b>                                    | <b>2,445,191</b>     | <b>966,165</b>                | <b>265,128</b>      | <b>4,859,363</b>               | <b>8,535,847</b>               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                    | <b>\$ 17,330,165</b> | <b>\$ 6,991,128</b>           | <b>\$ 1,977,126</b> | <b>\$ 7,364,959</b>            | <b>\$ 33,663,378</b>           |

The accompanying notes are an integral part of this statement.

**City of Muskegon  
Governmental Funds**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES**

**December 31, 2004**

|                                  |    |           |
|----------------------------------|----|-----------|
| Total governmental fund balances | \$ | 8,535,847 |
|----------------------------------|----|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

|                               |                     |            |
|-------------------------------|---------------------|------------|
| Governmental capital assets   | \$ 58,450,627       |            |
| Less accumulated depreciation | <u>(14,887,028)</u> | 43,563,599 |

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

|                                    |                |         |
|------------------------------------|----------------|---------|
| Bond issuance costs                | 64,892         |         |
| Additional income taxes receivable | <u>885,000</u> | 949,892 |

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

|   |                    |             |
|---|--------------------|-------------|
| Governmental bonds payable                    | (5,816,900)        |             |
| Bond premium                                  | (4,593)            |             |
| Accrued interest on the bonds                 | (20,800)           |             |
| Compensated absences (sick pay and vacations) | <u>(1,461,844)</u> | (7,304,137) |

Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.

3,718,727

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities.

|  |                    |           |
|--|--------------------|-----------|
| Net assets of the internal service funds                       | 5,187,845          |           |
| Amounts due to business-type funds from internal service funds | <u>(1,370,920)</u> | 3,816,925 |

|                                       |    |                   |
|---------------------------------------|----|-------------------|
| Net assets of governmental activities | \$ | <u>53,280,853</u> |
|---------------------------------------|----|-------------------|

The accompanying notes are an integral part of this statement.

**City of Muskegon  
Governmental Funds**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

|   | General             | Major Street<br>and Trunkline | Local Street      | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-------------------------------|-------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>                                   |                     |                               |                   |                                |                                |
| Taxes   | \$ 13,767,040       | \$ -                          | \$ -              | \$ -                           | \$ 13,767,040                  |
| Special assessments                               | -                   | 296,857                       | 85,557            | 321,050                        | 703,464                        |
| Licenses and permits                              | 1,139,014           | -                             | -                 | -                              | 1,139,014                      |
| Federal grants                                    | 233,158             | 779,854                       | -                 | 2,131,723                      | 3,144,735                      |
| State grants                                      | 33,127              | 3,012,583                     | 138,050           | 1,015,519                      | 4,199,279                      |
| State shared revenues                             | 4,645,348           | 2,760,477                     | 699,026           | -                              | 8,104,851                      |
| Charges for services                              | 2,138,678           | 300,143                       | 263,998           | 734,401                        | 3,437,220                      |
| Interest and rental income                        | 160,766             | 154,196                       | 24,065            | 96,125                         | 435,152                        |
| Fines and fees                                    | 622,165             | -                             | -                 | -                              | 622,165                        |
| Other   | 361,288             | 1,597                         | 618               | 564,925                        | 928,428                        |
| <b>Total revenues</b>                             | <b>23,100,584</b>   | <b>7,305,707</b>              | <b>1,211,314</b>  | <b>4,863,743</b>               | <b>36,481,348</b>              |
| <b>Expenditures</b>                               |                     |                               |                   |                                |                                |
| Current   |                     |                               |                   |                                |                                |
| Public representation services                    | 869,342             | -                             | -                 | -                              | 869,342                        |
| Administrative services                           | 704,667             | -                             | -                 | -                              | 704,667                        |
| Financial services                                | 1,829,276           | -                             | -                 | -                              | 1,829,276                      |
| Public safety                                     | 12,272,681          | -                             | -                 | 4,996                          | 12,277,677                     |
| Public works                                      | 2,543,512           | -                             | -                 | -                              | 2,543,512                      |
| Highways, streets and bridges                     | -                   | 6,812,050                     | 1,842,881         | -                              | 8,654,931                      |
| Leisure services                                  | 2,259,699           | -                             | -                 | -                              | 2,259,699                      |
| Planning and economic development                 | 797,072             | -                             | -                 | -                              | 797,072                        |
| Other governmental functions                      | 727,186             | -                             | -                 | 981,682                        | 1,708,868                      |
| Capital outlay                                    | 11,373              | -                             | -                 | 6,128,224                      | 6,139,597                      |
| Debt services                                     |                     |                               |                   |                                |                                |
| Principal   | 205,000             | 555,000                       | -                 | 575,000                        | 1,335,000                      |
| Interest  | 11,884              | 82,325                        | -                 | 107,238                        | 201,447                        |
| <b>Total expenditures</b>                         | <b>22,231,692</b>   | <b>7,449,375</b>              | <b>1,842,881</b>  | <b>7,797,140</b>               | <b>39,321,088</b>              |
| Excess (deficiency) of revenues over expenditures | 868,892             | (143,668)                     | (631,567)         | (2,933,397)                    | (2,839,740)                    |
| <b>Other financing sources (uses)</b>             |                     |                               |                   |                                |                                |
| Transfers in                                      | 301,209             | -                             | 920,000           | 2,121,403                      | 3,342,612                      |
| Sale of property                                  | -                   | -                             | -                 | 483,544                        | 483,544                        |
| Transfers out                                     | (1,156,328)         | (303,275)                     | (39,446)          | (1,734,320)                    | (3,233,369)                    |
| <b>Total other financing sources (uses)</b>       | <b>(855,119)</b>    | <b>(303,275)</b>              | <b>880,554</b>    | <b>870,627</b>                 | <b>592,787</b>                 |
| Net change in fund balances                       | 13,773              | (446,943)                     | 248,987           | (2,062,770)                    | (2,246,953)                    |
| Fund balances at beginning of year                | 2,431,418           | 1,413,108                     | 145,641           | 6,922,133                      | 10,912,300                     |
| Prior period adjustment (note M)                  | -                   | -                             | (129,500)         | -                              | (129,500)                      |
| As restated                                       | 2,431,418           | 1,413,108                     | 16,141            | 6,922,133                      | 10,782,800                     |
| <b>Fund balances at end of year</b>               | <b>\$ 2,445,191</b> | <b>\$ 966,165</b>             | <b>\$ 265,128</b> | <b>\$ 4,859,363</b>            | <b>\$ 8,535,847</b>            |

The accompanying notes are an integral part of this statement.

**City of Muskegon**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2004**

Net change in fund balances - total governmental funds \$ (2,246,953)

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those  
assets is depreciated over their estimated useful lives.

|                                 |                    |           |
|---------------------------------|--------------------|-----------|
| Expenditures for capital assets | \$ 8,735,293       |           |
| Less current year depreciation  | <u>(1,319,691)</u> | 7,415,602 |

The issuance of long-term debt provides current financial resources  
to governmental funds, while the repayment of the principal of  
long-term debt consumes the current financial resources of  
governmental funds. Neither transaction, however, has any effect  
on net assets. Also, governmental funds report the effect of  
issuance costs, premiums, discounts and similar items when debt  
is first issued, whereas these amounts are deferred and amortized  
in the statement of activities.

|  |                 |           |
|--|-----------------|-----------|
| Amortization of premium and issuance costs | (9,015)         |           |
| Principal payments                         | 1,335,000       |           |
| Change in accrued interest                 | 5,900           |           |
| Change in long-term compensated absences   | <u>(99,747)</u> | 1,232,138 |

Governmental funds report the proceeds from the sale of capital  
assets as revenue. However, the proceeds are netted against  
the net book value of the asset in determining the gain (loss) on  
sale in the statement of activities (184,650)

Governmental funds recognize special assessments as  
revenue as they become current, however they are  
recognized in full when levied in the statement of net assets (306,812)

Governmental funds recognize income tax revenues when they  
are both measurable and available, that is collected during the  
current period or within two months after year end. However,  
they are recognized in full for the period they are earned in the  
statement of net assets. (90,000)

Internal service funds are used by management to charge the  
costs of certain activities to individual funds. The net change  
of certain activities of the internal service funds are reported  
with governmental activities.

|  |                  |         |
|--|------------------|---------|
| Change in net assets of internal service funds | 531,828          |         |
| Amount allocated to business-type funds        | <u>(150,923)</u> | 380,905 |

|   |    |                         |
|---|----|-------------------------|
| Change in net assets of governmental activities | \$ | <u><u>6,200,230</u></u> |
|---|----|-------------------------|

The accompanying notes are an integral part of this statement.

City of Muskegon  
Proprietary Funds

STATEMENT OF FUND NET ASSETS

December 31, 2004

|  | Business-Type Activities |                      |                        |                      | Governmental        |
|--|--------------------------|----------------------|------------------------|----------------------|---------------------|
|  | Enterprise Funds         |                      |                        |                      | Activities          |
|  | Sewer                    | Water                | Marina and Launch Ramp | Total                | Internal Service    |
| <b>ASSETS</b>  |                          |                      |                        |                      |                     |
| Current assets   |                          |                      |                        |                      |                     |
| Cash and cash equivalents (note A and B)   | \$ 1,397,154             | \$ 3,645,563         | \$ -                   | \$ 5,042,717         | \$ 1,396,796        |
| Accounts receivable  | 1,154,799                | 1,142,035            | 601                    | 2,297,435            | 309,983             |
| Due from other funds   | -                        | -                    | -                      | -                    | 909,725             |
| Due from other governmental units  | -                        | 46,044               | 11,388                 | 57,432               | -                   |
| Inventories (note A)   | 30,795                   | 77,974               | -                      | 108,769              | 18,270              |
| Prepaid items (note A)   | 9,848                    | 11,546               | 692                    | 22,086               | 171,180             |
| Total current assets   | 2,592,596                | 4,923,162            | 12,681                 | 7,528,439            | 2,805,954           |
| Noncurrent assets  |                          |                      |                        |                      |                     |
| Restricted cash and cash equivalents (note A and B)                                  | -                        | 822,559              | -                      | 822,559              | -                   |
| Deferred debt expense (note A)   | -                        | 130,895              | -                      | 130,895              | -                   |
| Contract receivable (note A)   | 2,770,434                | -                    | -                      | 2,770,434            | -                   |
| Wastewater facility rights (net of accumulated amortization of \$2,369,748) (note A) | 1,094,345                | -                    | -                      | 1,094,345            | -                   |
| Capital assets (note A and C)  |                          |                      |                        |                      |                     |
| Land, construction in progress and other assets not being depreciated                | 1,264,540                | 17,704,327           | 22,562                 | 18,991,429           | 65,000              |
| Other capital assets, net of depreciation  | 11,549,351               | 20,526,964           | 1,420,738              | 33,497,053           | 2,791,846           |
| Total capital assets   | 12,813,891               | 38,231,291           | 1,443,300              | 52,488,482           | 2,856,846           |
| Total noncurrent assets  | 16,678,670               | 39,184,745           | 1,443,300              | 57,306,715           | 2,856,846           |
| <b>TOTAL ASSETS</b>  | <b>\$ 19,271,266</b>     | <b>\$ 44,107,907</b> | <b>\$ 1,455,981</b>    | <b>\$ 64,835,154</b> | <b>\$ 5,662,800</b> |
| <b>LIABILITIES AND NET ASSETS</b>  |                          |                      |                        |                      |                     |
| Liabilities  |                          |                      |                        |                      |                     |
| Current liabilities  |                          |                      |                        |                      |                     |
| Current maturities of long-term debt   | \$ 1,080,974             | \$ 435,000           | \$ -                   | \$ 1,515,974         | \$ -                |
| Accounts payable   | 6,125                    | 2,373,812            | 12,230                 | 2,392,167            | 338,979             |
| Accrued payroll  | 21,794                   | 36,902               | 971                    | 59,667               | 30,028              |
| Accrued interest   | -                        | 105,000              | -                      | 105,000              | -                   |
| Due to other funds (note E)  | -                        | -                    | 72,605                 | 72,605               | -                   |
| Due to other governmental units  | 156,415                  | 58,410               | -                      | 214,825              | -                   |
| Compensated absences payable (note A)  | 54,485                   | 120,219              | 3,109                  | 177,813              | 105,948             |
| Total current liabilities  | 1,319,793                | 3,129,343            | 88,915                 | 4,538,051            | 474,955             |
| Noncurrent liabilities (note A and D)  |                          |                      |                        |                      |                     |
| Contracts payable-Muskegon County  | 4,779,656                | -                    | -                      | 4,779,656            | -                   |
| Bonds payable (net of unamortized discount of \$83,716)                              | -                        | 17,325,050           | -                      | 17,325,050           | -                   |
| Less current maturities  | (1,080,974)              | (435,000)            | -                      | (1,515,974)          | -                   |
| Total noncurrent liabilities   | 3,698,682                | 16,890,050           | -                      | 20,588,732           | -                   |
| Total liabilities  | 5,018,475                | 20,019,393           | 88,915                 | 25,126,783           | 474,955             |
| Net assets (note A)  |                          |                      |                        |                      |                     |
| Invested in capital assets, net of related debt                                      | 9,128,580                | 21,037,136           | 1,443,300              | 31,609,016           | 2,856,846           |
| Restricted for   |                          |                      |                        |                      |                     |
| Debt service   | -                        | 822,559              | -                      | 822,559              | -                   |
| Unrestricted   | 5,124,211                | 2,228,819            | (76,234)               | 7,276,796            | 2,330,999           |
| Total net assets   | 14,252,791               | 24,088,514           | 1,367,066              | 39,708,371           | 5,187,845           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 19,271,266</b>     | <b>\$ 44,107,907</b> | <b>\$ 1,455,981</b>    | <b>\$ 64,835,154</b> | <b>\$ 5,662,800</b> |

Reconciliation to the statement of net assets

Total net assets of enterprise funds \$ 39,708,371

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities 1,370,920

Net assets of business-type activities \$ 41,079,291

The accompanying notes are an integral part of this statement.

**City of Muskegon  
Proprietary Funds**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

Year Ended December 31, 2004

|   | Business-Type Activities<br>Enterprise Funds |               |                            | Governmental<br>Activities |                  |
|---|--|---------------|----------------------------|----------------------------|------------------|
|   | Sewer  | Water         | Marina, and<br>Launch Ramp | Total                      | Internal Service |
| Operating revenues  |  |               |                            |                            |                  |
| Charges for services  | \$ 4,032,673                                 | \$ 4,878,807  | \$ 256,297                 | \$ 9,167,777               | \$ -             |
| Charges to other funds                                      | -  | -             | -                          | -                          | 6,016,323        |
| Other revenues  | 50,918                                       | 98,513        | 10,684                     | 160,115                    | 205,163          |
| Total operating revenues                                    | 4,083,591                                    | 4,977,320     | 266,981                    | 9,327,892                  | 6,221,486        |
| Operating expenses  |  |               |                            |                            |                  |
| Operating and administrative                                | 402,634                                      | 492,656       | 285,922                    | 1,181,212                  | 2,536,423        |
| Insurance premiums and claims                               | -  | -             | -                          | -                          | 3,576,019        |
| Wastewater treatment  | 2,599,280                                    | -             | -                          | 2,599,280                  | -                |
| Filtration plant operations                                 | -  | 1,188,566     | -                          | 1,188,566                  | -                |
| Water distribution  | -  | 1,494,462     | -                          | 1,494,462                  | -                |
| Bad debts   | 37,025                                       | 10,383        | -                          | 47,408                     | -                |
| Depreciation and amortization                               | 662,976                                      | 604,442       | 69,873                     | 1,337,291                  | 586,234          |
| Total operating expenses                                    | 3,701,915                                    | 3,790,509     | 355,795                    | 7,848,219                  | 6,698,676        |
| Operating income (loss)                                     | 381,676                                      | 1,186,811     | (88,814)                   | 1,479,673                  | (477,190)        |
| Nonoperating revenues (expenses)                            |  |               |                            |                            |                  |
| Investment income   | 12,821                                       | 38,947        | -                          | 51,768                     | 24,628           |
| Gain (loss) on sale of capital assets                       | -  | -             | -                          | -                          | (4,906)          |
| State grants  | -  | -             | 11,388                     | 11,388                     | -                |
| Other   | 147,532                                      | -             | -                          | 147,532                    | -                |
| Interest expense  | (110,520)                                    | (411,867)     | -                          | (522,387)                  | -                |
| Total nonoperating revenues (expenses)                      | 49,833                                       | (372,920)     | 11,388                     | (311,699)                  | 19,722           |
| Income (loss) before capital contributions<br>and transfers | 431,509                                      | 813,891       | (77,426)                   | 1,167,974                  | (457,468)        |
| Capital contributions                                       |  |               |                            |                            |                  |
| Infrastructure reimbursement received                       | 150,393                                      | 348,208       | -                          | 498,601                    | -                |
| Income (loss) before transfers                              | 581,902                                      | 1,162,099     | (77,426)                   | 1,666,575                  | (457,468)        |
| Transfers   |  |               |                            |                            |                  |
| Transfers in  | 47,796                                       | 54,624        | 40,000                     | 142,420                    | 1,240,959        |
| Transfers out   | -  | -             | -                          | -                          | (251,663)        |
| Total transfers   | 47,796                                       | 54,624        | 40,000                     | 142,420                    | 989,296          |
| Change in net assets  | 629,698                                      | 1,216,723     | (37,426)                   | 1,808,995                  | 531,828          |
| Net assets at beginning of year                             | 13,623,093                                   | 22,871,791    | 1,404,492                  | 37,899,376                 | 4,656,017        |
| Net assets at end of year                                   | \$ 14,252,791                                | \$ 24,088,514 | \$ 1,367,066               | \$ 39,708,371              | \$ 5,187,845     |

Reconciliation to the statement of activities

Total change in net assets of enterprise funds

\$ 1,808,995

Some amounts reported for business-type activities  
in the statements of activities are different because  
the net revenue (expense) of certain internal service  
funds is reported with business-type activities

150,923

Change in net assets of business-type activities

\$ 1,959,918

The accompanying notes are an integral part of this statement.

**City of Muskegon  
Proprietary Funds**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2004

|  | Business-Type Activities<br>Enterprise Funds |              |                           |              | Governmental<br>Activities |
|--|--|--------------|---------------------------|--------------|----------------------------|
|  | Sewer  | Water        | Marina and<br>Launch Ramp | Total        | Internal Service           |
| Cash flows from operating activities   |  |              |                           |              |                            |
| Receipts from customers  | \$ 4,061,635                                 | \$ 4,897,939 | \$ 255,593                | \$ 9,215,167 | \$ 209,473                 |
| Receipts for internal services provided  | -  | -            | -                         | -            | 6,016,323                  |
| Payments to suppliers  | (1,884,469)                                  | (1,211,258)  | (143,905)                 | (3,239,632)  | (5,132,409)                |
| Payments to employees  | (562,964)                                    | (1,280,494)  | (111,302)                 | (1,954,760)  | (914,204)                  |
| Payments to internal service funds   | (544,281)                                    | (677,035)    | (24,649)                  | (1,245,965)  | (359,554)                  |
| Net cash provided by (used for) operating activities   | 1,069,921                                    | 1,729,152    | (24,263)                  | 2,774,810    | (180,371)                  |
| Cash flows from noncapital financing activities  |  |              |                           |              |                            |
| Interfund borrowing  | -  | -            | 593                       | 593          | (909,725)                  |
| Transfers in   | 47,796                                       | 54,624       | 40,000                    | 142,420      | 1,240,959                  |
| Transfers out  | -  | -            | -                         | -            | (251,663)                  |
| Net cash provided by noncapital financing activities   | 47,796                                       | 54,624       | 40,593                    | 143,013      | 79,571                     |
| Cash flows from capital and related financing activities   |  |              |                           |              |                            |
| State grant  | -  | -            | 11,388                    | 11,388       | -                          |
| Capital contributions  | 150,393                                      | 348,208      | -                         | 498,601      | -                          |
| Acquisition and construction of capital assets   | (511,938)                                    | (9,326,359)  | (27,718)                  | (9,866,015)  | (577,914)                  |
| Proceeds from sale of capital assets   | -  | 500,000      | -                         | 500,000      | -                          |
| Proceeds from debt   | -  | 8,483,766    | -                         | 8,483,766    | -                          |
| Principal paid on bonds  | (1,107,267)                                  | (420,000)    | -                         | (1,527,267)  | -                          |
| Interest paid on bonds   | (110,520)                                    | (362,480)    | -                         | (473,000)    | -                          |
| Other  | 147,532                                      | -            | -                         | 147,532      | -                          |
| Net cash used for capital and related financing activities   | (1,431,800)                                  | (776,865)    | (16,330)                  | (2,224,995)  | (577,914)                  |
| Cash flows from investing activities   |  |              |                           |              |                            |
| Investment income  | 12,821                                       | 38,947       | -                         | 51,768       | 24,628                     |
| Collections on contract receivable   | 652,088                                      | -            | -                         | 652,088      | -                          |
| Net cash provided by investing activities  | 664,909                                      | 38,947       | -                         | 703,856      | 24,628                     |
| Net increase (decrease) in cash and cash equivalents   | 350,826                                      | 1,045,858    | -                         | 1,396,684    | (654,086)                  |
| Cash and cash equivalents at beginning of year   | 1,046,328                                    | 3,422,264    | -                         | 4,468,592    | 2,050,882                  |
| Cash and cash equivalents at end of year   | \$ 1,397,154                                 | \$ 4,468,122 | \$ -                      | \$ 5,865,276 | \$ 1,396,796               |
| Reconciliation of cash and cash equivalents to the balance sheet   |  |              |                           |              |                            |
| Cash and cash equivalents  | \$ 1,397,154                                 | \$ 3,645,563 | \$ -                      | \$ 5,042,717 | \$ 1,396,796               |
| Restricted cash and cash equivalents   | -  | 822,559      | -                         | 822,559      | -                          |
|  | \$ 1,397,154                                 | \$ 4,468,122 | \$ -                      | \$ 5,865,276 | \$ 1,396,796               |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities        |  |              |                           |              |                            |
| Operating income (loss)  | \$ 381,676                                   | \$ 1,186,811 | \$ (88,814)               | \$ 1,479,673 | \$ (477,190)               |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities |  |              |                           |              |                            |
| Depreciation and amortization  | 662,976                                      | 604,442      | 69,873                    | 1,337,291    | 586,234                    |
| Bad debt   | 37,025                                       | 10,383       | -                         | 47,408       | -                          |
| (Increase) decrease in   |  |              |                           |              |                            |
| Accounts receivable  | (21,956)                                     | (73,873)     | -                         | (95,829)     | (182,750)                  |
| Due from other governmental units  | -  | (5,508)      | (11,388)                  | (16,896)     | -                          |
| Inventories  | (7,703)                                      | (7,702)      | -                         | (15,405)     | (7,866)                    |
| Prepaid items  | 410  | 224          | 47                        | 681          | (143,349)                  |
| Increase (decrease) in   |  |              |                           |              |                            |
| Accounts payable   | (28,029)                                     | (21,695)     | 7,216                     | (42,508)     | 26,051                     |
| Accrued payroll  | 8,224  | (1,674)      | (189)                     | 6,361        | 6,406                      |
| Due to other governmental units  | 27,768                                       | 58,410       | -                         | 86,178       | -                          |
| Compensated absences payable   | 9,530  | (20,666)     | (1,008)                   | (12,144)     | 12,093                     |
| Net cash provided by (used for) operating activities   | \$ 1,069,921                                 | \$ 1,729,152 | \$ (24,263)               | \$ 2,774,810 | \$ (180,371)               |

The accompanying notes are an integral part of this statement.

City of Muskegon  
Fiduciary Funds

**STATEMENT OF FIDUCIARY NET ASSETS**

December 31, 2004

|  | Pension Trust<br>Funds | Agency Funds         | Total Fiduciary<br>Net Assets |
|--|------------------------|----------------------|-------------------------------|
| <b><u>ASSETS</u></b>                     |                        |                      |                               |
| Cash and cash equivalents (note A and B) | \$ 1,162,153           | \$ 5,790,843         | \$ 6,952,996                  |
| Investments (note A and B)               | 86,964,885             | -                    | 86,964,885                    |
| Receivables (note A)                     |                        |                      |                               |
| Accounts                                 | -                      | 5,486                | 5,486                         |
| Property taxes                           | -                      | 18,997,331           | 18,997,331                    |
| <b>TOTAL ASSETS</b>                      | <b>\$ 88,127,038</b>   | <b>\$ 24,793,660</b> | <b>\$ 112,920,698</b>         |
| <b><u>LIABILITIES AND NET ASSETS</u></b> |                        |                      |                               |
| <b>Liabilities</b>                       |                        |                      |                               |
| Accounts payable                         | \$ 276                 | \$ 11,222            | \$ 11,498                     |
| Due to other funds (note E)              | -                      | 1,326,027            | 1,326,027                     |
| Due to other governmental units          | -                      | 22,672,481           | 22,672,481                    |
| Other liabilities                        | -                      | 783,930              | 783,930                       |
| <b>Total liabilities</b>                 | <b>276</b>             | <b>24,793,660</b>    | <b>24,793,936</b>             |
| <b>Net assets (note A)</b>               |                        |                      |                               |
| Held in trust for pension benefits       | 77,932,507             | -                    | 77,932,507                    |
| Held in trust for healthcare benefits    | 10,194,255             | -                    | 10,194,255                    |
| <b>Total net assets</b>                  | <b>88,126,762</b>      | <b>-</b>             | <b>88,126,762</b>             |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 88,127,038</b>   | <b>\$ 24,793,660</b> | <b>\$ 112,920,698</b>         |

The accompanying notes are an integral part of this statement.



**City of Muskegon  
Fiduciary Funds**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**Year Ended December 31, 2004**

|  | <u>Pension<br/>Trust</u>    |
|--|-----------------------------|
| Additions                                    |                             |
| Contributions                                |                             |
| Member                                       | \$ 717,024                  |
| City   | <u>2,384,665</u>            |
| Total contributions                          | 3,101,689                   |
| Net investment income                        |                             |
| Interest and dividends                       | 12,924                      |
| Net increase in fair value<br>of investments | <u>8,452,230</u>            |
| Total additions                              | <u>11,566,843</u>           |
| Deductions                                   |                             |
| Benefit payments                             | 4,490,543                   |
| Refunds of contributions                     | 278,682                     |
| Administrative expenses                      | 229,574                     |
| Transfers out                                | <u>1,240,959</u>            |
| Total deductions                             | <u>6,239,758</u>            |
| Change in net assets                         | 5,327,085                   |
| Net assets at beginning of year              | <u>82,799,677</u>           |
| Net assets at end of year                    | <u><u>\$ 88,126,762</u></u> |

The accompanying notes are an integral part of this statement.

City of Muskegon  
Discretely Presented Component Units

**STATEMENT OF NET ASSETS**

December 31, 2004

|  | Local<br>Development<br>Finance<br>Authority I | Local<br>Development<br>Finance<br>Authority II | Local<br>Development<br>Finance<br>Authority III | Downtown<br>Development<br>Authority | Tax Increment<br>Finance<br>Authority | Combined<br>Total   |
|--|--|---|--|--------------------------------------|---------------------------------------|---------------------|
| <b>ASSETS</b>  |  |   |  |                                      |                                       |                     |
| Cash and cash equivalents (note A and B)               | \$ 301   | \$ 21,795                                       | \$ 465,160                                       | \$ 435,306                           | \$ 3,141                              | \$ 925,703          |
| Property taxes receivable                              | -  | -   | 11,620   | 638,521                              | 59,706                                | 709,847             |
| Deferred debt expense (note A)                         | -  | -   | 129,621  | -                                    | -                                     | 129,621             |
|  | 301  | 21,795  | 606,401  | 1,073,827                            | 62,847                                | 1,765,171           |
| <b>Capital assets (note A and C)</b>                   |  |   |  |                                      |                                       |                     |
| Land   | -  | -   | 400,000  | -                                    | -                                     | 400,000             |
| Other capital assets, net of depreciation              | -  | -   | 3,611,223  | -                                    | -                                     | 3,611,223           |
| Total capital assets                                   | -  | -   | 4,011,223  | -                                    | -                                     | 4,011,223           |
| <b>TOTAL ASSETS</b>                                    | <b>\$ 301</b>                                  | <b>\$ 21,795</b>                                | <b>\$ 4,617,624</b>                              | <b>\$ 1,073,827</b>                  | <b>\$ 62,847</b>                      | <b>\$ 5,776,394</b> |
| <b>LIABILITIES AND NET ASSETS</b>                      |  |   |  |                                      |                                       |                     |
| <b>Liabilities</b>                                     |  |   |  |                                      |                                       |                     |
| Accrued interest                                       | \$ -   | \$ -  | \$ 34,200  | \$ 14,200                            | \$ -                                  | \$ 48,400           |
| Deferred revenue (note A)                              | -  | -   | 11,620   | 638,521                              | 59,706                                | 709,847             |
|  | -  | -   | 45,820   | 652,721                              | 59,706                                | 758,247             |
| <b>Long-term liabilities (note A and D)</b>            |  |   |  |                                      |                                       |                     |
| Due within one year                                    | -  | -   | -  | 185,000                              | -                                     | 185,000             |
| Bonds payable  | -  | -   | -  | -                                    | -                                     | -                   |
| Due in more than one year                              | -  | -   | -  | -                                    | -                                     | -                   |
| Bonds payable (net of unamortized discount of \$8,018) | -  | -   | 4,716,982  | 4,305,000                            | -                                     | 9,021,982           |
| Total long-term liabilities                            | -  | -   | 4,716,982  | 4,490,000                            | -                                     | 9,206,982           |
| Total liabilities                                      | -  | -   | 4,762,802  | 5,142,721                            | 59,706                                | 9,965,229           |
| <b>Net assets (note A)</b>                             |  |   |  |                                      |                                       |                     |
| Invested in capital assets, net of related debt        | -  | -   | (576,138)  | -                                    | -                                     | (576,138)           |
| Unrestricted   | 301  | 21,795  | 430,960  | (4,068,894)                          | 3,141                                 | (3,612,697)         |
| Total net assets                                       | 301  | 21,795  | (145,178)  | (4,068,894)                          | 3,141                                 | (4,188,835)         |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                | <b>\$ 301</b>                                  | <b>\$ 21,795</b>                                | <b>\$ 4,617,624</b>                              | <b>\$ 1,073,827</b>                  | <b>\$ 62,847</b>                      | <b>\$ 5,776,394</b> |

The accompanying notes are an integral part of this statement.

City of Muskegon  
Discretely Presented Component Units

STATEMENT OF ACTIVITIES

December 31, 2004

|   | Net (Expenses) Revenue and Change in Net Assets |   |  |                                      |                                       |                   |
|---|---|---|--|--------------------------------------|---------------------------------------|-------------------|
|   | Local<br>Development<br>Finance<br>Authority I  | Local<br>Development<br>Finance<br>Authority II | Local<br>Development<br>Finance<br>Authority III | Downtown<br>Development<br>Authority | Tax Increment<br>Finance<br>Authority | Combined<br>Total |
| Expenses  |   |   |  |                                      |                                       |                   |
| \$  | \$ -  | \$ -  | \$ -   | \$ -                                 | \$ -                                  | \$ -              |
| Local Development Finance Authority I<br>Economic development   | 399   | (399)   | -  | -                                    | -                                     | (399)             |
| Local Development Finance Authority II<br>Economic development  |   |   |  |                                      |                                       |                   |
| Local Development Finance Authority III<br>Economic development |   |   |  |                                      |                                       |                   |
| Interest on long-term debt                                      | 178,821   | -   | (178,821)  | -                                    | -                                     | (178,821)         |
| Total Local Development Finance<br>Authority III                | 206,076   | -   | (206,076)  | -                                    | -                                     | (206,076)         |
| Downtown Development Authority<br>Economic development          |   |   |  |                                      |                                       |                   |
| Interest on long-term debt                                      | 384,897   | -   | (384,897)  | -                                    | -                                     | (384,897)         |
| Total Downtown Development Authority                            |   |   |  |                                      |                                       |                   |
| Tax Increment Finance Authority<br>Economic development         |   |   |  |                                      |                                       |                   |
| Interest on long-term debt                                      | 115,084   | -   | -  | (115,084)                            | -                                     | (115,084)         |
| Total Tax Increment Finance Authority                           | 160,743   | -   | -  | (160,743)                            | -                                     | (160,743)         |
|   | 275,827   | -   | -  | (275,827)                            | -                                     | (275,827)         |
| Tax Increment Finance Authority<br>Economic development         |   |   |  |                                      |                                       |                   |
| Interest on long-term debt                                      | 56,000  | -   | -  | -                                    | (56,000)                              | (56,000)          |
| Total discretely presented component<br>units                   | \$ 717,123                                      | (399)   | (384,897)  | (275,827)                            | (56,000)                              | (717,123)         |
| General revenues  |   |   |  |                                      |                                       |                   |
| Property taxes  | -   | -   | 10,585   | 686,302                              | 57,959                                | 754,846           |
| Investment income   | -   | 1,381   | 16,199   | 5,182                                | 333                                   | 23,095            |
| Total general revenues  | -   | 1,381   | 26,784   | 691,484                              | 58,292                                | 777,941           |
| Change in net assets  | -   | 982   | (358,113)  | 415,657                              | 2,292                                 | 60,818            |
| Net assets at beginning of year                                 | 301   | 20,813  | 212,935  | (4,484,551)                          | 849                                   | (4,249,653)       |
| Net assets at end of year                                       | \$ 301  | \$ 21,795                                       | \$ (145,178)                                     | \$ (4,068,894)                       | \$ 3,141                              | \$ (4,188,835)    |

The accompanying notes are an integral part of this statement.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Muskegon, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

- Financial Reporting Entity - The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter: general administrative services, public safety, highway and street maintenance, sanitation, culture, recreation and other governmental functions. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.
- Component Units - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units. Each blended and discretely presented component unit has a December 31 year-end.
  - Blended Component Units - Blended component units, although legally separate entities, are, in substance, part of City operations and so data from these units are combined with data from the primary government.
  - City of Muskegon Building Authority - The Authority is governed by a three-member board comprised of the City Manager, City Attorney and City Finance Director. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations since its sole purpose is to acquire and lease property to the City. Currently, there is no outstanding Building Authority indebtedness.
  - Discretely Presented Component Units - The component units' columns in the government-wide financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- City of Muskegon Downtown Development Authority (DDA) - The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance.
  - City of Muskegon Tax Increment Finance Authority (TIFA) - The Authority's sole purpose is the collection of tax increment revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance.
  - City of Muskegon Local Development Finance Authority - The City has created three separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA) to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park. The LDFA's sole purpose is the collection of tax increment revenues and the construction of public facilities. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance.
  - Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.
- *Related Organizations* - The following organizations are related to the City's financial reporting entity:
- Muskegon Hospital Finance Authority - The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority's sole purpose is to issue tax-exempt debt for the benefit of Hackley and Mercy-General hospitals, both of which are located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of December 31, 2004, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Muskegon Housing Commission - The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2003, the date of its latest audited financial statements is as follows:

| Muskegon Housing Commission  |                    |
|------------------------------|--------------------|
| Total assets                 | \$5,455,749        |
| Total liabilities            | <u>222,942</u>     |
| Total fund equity            | <u>\$5,232,807</u> |
|                              |                    |
| Total operating income       | \$286,485          |
| Total operating expenditures | (2,047,621)        |
| Total nonoperating revenues  | <u>1,434,149</u>   |
| Net loss                     | <u>(\$326,987)</u> |

Complete audited financial statements can be obtained from the Muskegon Housing Commission at 1080 Terrace Street, Muskegon, Michigan 49442.

- Joint Ventures - The City of Muskegon participates in the following joint ventures:
  - Central Operations for Police Services - The City is a member of an area-wide central dispatch system, Central Operations for Police Services. It is a joint venture of nine governmental units governed by a board composed of representatives of the participants. It is financed through property taxes, an emergency telephone surcharge to the public and through annual member assessments based on population, composite state equalized valuation of property and the average of service calls placed. The City does not report an equity interest in this joint venture in these financial statements because the City does not have an explicit and measurable right to the joint venture's resources. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial information based on the September 30, 2004 audit report of Central Operations for Police Services follows:

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

| Central Operations for Police Services |                    |
|--|--------------------|
| <b>General Fund</b>                    |                    |
| Total assets                           | \$7,404,393        |
| Total liabilities                      | <u>4,800,128</u>   |
| Net assets                             | <u>\$2,604,265</u> |
|  |                    |
| Program revenues                       | \$2,377,253        |
| General revenues                       | 1,109,396          |
| Expenditures                           | <u>2,131,433</u>   |
| Change in net assets                   | <u>\$1,355,216</u> |

Complete financial statements for Central Operations for Police Services can be obtained from their administrative office at 860 Terrace Street, Muskegon, Michigan 49443.

- Muskegon Regional Water Alliance - The City is a member of an area-wide alliance, the Muskegon Regional Water Alliance. It is a joint venture of seven governmental units governed by a board composed of representatives of the participants. It is financed through member assessments. The purpose of the alliance is to review, advise and participate in non-binding issues regarding water service within Muskegon County. The City does not report an equity interest in this joint venture in these financial statements because the City does not have an explicit and measurable right to the joint venture's resources. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial information based on the May 31, 2003 audit report of the Muskegon Regional Water Alliance follows:

| Muskegon Regional Water Alliance          |                 |
|---|-----------------|
| <b>General Fund</b>                       |                 |
| Total assets                              | \$6,362         |
| Total liabilities                         | -               |
| Fund balance                              | <u>\$6,362</u>  |
|   |                 |
| Revenues                                  | \$ -            |
| Expenditures                              | <u>450</u>      |
| Revenues under expenditures               | <u>(\$ 450)</u> |
| <b>General fixed assets account group</b> | \$ -            |
| <b>General long term debt</b>             | \$ -            |

Complete financial statements for the Muskegon Regional Water Alliance can be obtained from their administrative office at 5428 East Apple Avenue, Muskegon, Michigan 49444.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. The City has elected not to allocate those indirect expenses to other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

- Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements. To improve reporting cohesiveness, the City has elected to include the Local Street and Marina funds as major funds for this report.



City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- The City reports the following major funds:
  - General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.
  - Special Revenue Funds
    - Major Street and Trunkline Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.
    - Local Street Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.
  - Enterprise Funds
    - Water Fund - To account for user charges and for operating expenses and debt service of the City's water system.
    - Sewer Fund - To account for user charges and for operating expenses and debt service of the City's sewer system.
    - Marina Fund - To account for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.
- The following is a description of the three major categories and various fund types within those categories into which the funds are grouped:
  - Governmental Funds - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.
  - ♦ Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers income taxes, property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within two months of year-end. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or if received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- ♦ Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.
- The following is a description of the governmental fund types of the City:
  - ♦ General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.
  - ♦ Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.
  - ♦ Debt Service Funds - Debt service funds are used to record the funding and payment of principal, interest and related expenses in connection with certain long-term debt other than debt payable from the operations of the proprietary funds.
  - ♦ Capital Projects Funds - Capital projects funds are used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations.
  - ♦ Permanent Funds - The permanent funds are used to account for the assets of legal trust agreements held by the City as trustee for which only the interest income on the principal may be spent.
- Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- The following is a description of the proprietary fund types of the City:
    - ♦ Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.
    - ♦ Internal Service Funds - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.
  - Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.
  - Agency Funds - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City uses agency funds to account for property taxes collected on behalf of other units and to temporarily hold payroll withholding taxes and deductions.
  - Pension Trust Funds - The pension trust funds are used to account for the assets held by the City as trustee for the employee retirement systems.
- Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:
- Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
  - Public hearings are conducted at the City hall to obtain public comments.
  - Prior to September 25<sup>th</sup> the budget and annual appropriations act are legally adopted by the City Commission.
  - Formal budget integration is employed as a management control device during the year.
  - Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.
  - Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In 2004, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were lower than originally budgeted.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- All budget appropriations lapse at the end of the year.
- Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.
- Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:
  - In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
  - In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
  - In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
  - In United States government or federal agency obligation repurchase agreements.
  - In banker's acceptances of United States banks.
  - In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
  - In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's three pension trust funds are also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents". In addition, certain City trust funds including the Policemen and Firemen Retirement Trust Fund, the General Employees Retirement Trust Fund and the Cemetery Perpetual Care Trust Fund have investments which are separately held from those of other City funds.

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

In accordance with State law, interest earned in the Budget Stabilization Fund is recorded in the General Fund.

Investments with a maturity of greater than one year at the date of purchase are stated at fair value, and all other investments are stated at cost or amortized cost.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31<sup>st</sup>. Taxes are levied on December 1<sup>st</sup> of the following year and are payable from the date of levy through March 1<sup>st</sup>. Taxes levied on December 1<sup>st</sup> are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy date (December 1<sup>st</sup>). The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$10.00 per \$1,000 of state equalized valuation for general governmental purposes, \$3.00 for sanitation, and up to \$50,000 per year for community promotion. The tax rate to finance City services for the year ended December 31, 2004, was \$10.0774 per \$1,000 of taxable valuation.

- Inventories and Prepaid Items - Inventories include materials, repair parts and supplies for various City operations and are valued at the lower of cost (first-in, first-out) or market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.
- Restricted Cash and Cash Equivalents - Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
- Wastewater Facility Rights - The City is a participant in the Muskegon County Wastewater Management System, a wastewater treatment facility owned and operated by Muskegon County. Members are charged usage fees based on the volume of wastewater treated. In addition, each member municipality has pledged its full faith and credit in repayment of their allocated shares of long-term debt of the system. The City has a binding commitment from a large industrial user of the system to participate in the repayment of its share of the debt. The industrial user, whose demand for wastewater treatment accounts for 59% of the citywide wastewater flow into the system, has agreed to fund 59% of the City's share of the contracts payable to the County.

The City accounts for the group of transactions substantially in accordance with APB 17, Intangible Assets. The contract payable to Muskegon County is presented as long-term debt. The long-term receivable from the industrial user is recorded as an "other" asset and the difference, which represents the City's investment in an intangible asset, is presented as wastewater facility rights. The investment in wastewater facility rights is amortized over the life of the debt issue.

- Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$7,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the water fund during the year ended December 31, 2004 was \$469,734. Of this amount, \$57,867 was included as part of the cost of capital assets under construction in connection with water treatment facilities. Other costs incurred for repairs and maintenance are expensed as incurred.
- Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

|                        | <u>Years</u> |
|------------------------|--------------|
| Buildings              | 25 - 50      |
| Improvements           | 40 - 50      |
| Water and sewage mains | 40 - 100     |
| Equipment              | 5 - 20       |

- GASB 34 requires major networks and major subsystems of infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The City has capitalized infrastructure since January 1, 2002 when GASB 34 was implemented, and has reported the infrastructure in the statement of net assets. The City will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB 34.
- Compensated Absences - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, a liability for these amounts is reported in the governmental funds only for employee terminations as of year-end while the proprietary funds report the liability as it is incurred.
- Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.  
  
In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Cash Overdrafts - To facilitate cash management and to maximize interest income, the primary government and component units have pooled certain cash and investment accounts. Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds.
- Fund Equity – In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid items and inventories as those items will be expended in subsequent years. Designations of fund balance represent tentative management plans that are subject to change.
- Comparative Data - Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

NOTE B - CASH AND INVESTMENTS

- Deposits - At year-end the carrying amount of the primary government and component unit's deposits was \$12,292,617 and the bank balance was \$11,902,347. Of the bank balance, \$100,000 was federally insured and \$11,364,041 was uninsured and uncollateralized.

Deposits are categorized below according to level of credit risk:

- Category 1 represents insured or collateralized deposits with securities held by the entity or by its agent in the entity's name.
- Category 2 represents collateralized deposits with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 represents uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the entity's name.

|                 | Category  |      |              | Bank<br>Balance | Carrying<br>Amount |
|-----------------|-----------|------|--------------|-----------------|--------------------|
|                 | 1         | 2    | 3            |                 |                    |
| Demand Deposits | \$100,000 | \$ - | \$11,802,347 | \$11,902,347    | \$12,292,617       |

- Investments - Investments of the primary government and component units are categorized below to give an indication of the level of risk assumed by the entity at year-end:
  - Category 1 includes investments that are insured or registered, or for which the securities are held by the entity or its agent in the entity's name.
  - Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's trust department or agent in the entity's name.
  - Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's name.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE B - CASH AND INVESTMENTS – Continued

|   | Category    |          |          | Carrying Amount     |
|---|-------------|----------|----------|---------------------|
|   | <u>1</u>    | <u>2</u> | <u>3</u> |                     |
| US Government Securities                              | \$7,658,909 | \$ -     | \$ -     | \$7,658,909         |
| <u>Investments Not Subject to Categorization:</u>     |             |          |          |                     |
| Stable Net Asset Value Money Market Mutual Funds      |             |          |          | 1,658,469           |
| Variable Net Asset Value Equity/Bond Collective Funds |             |          |          | 90,320,829          |
|   |             |          |          | <u>\$99,638,207</u> |

Pension trust investments included above consist of the following asset classes. Approximately 71% of the equity and bond investments consist of passively-managed index funds:

| Fund               | Equities            | Bonds               | Total               |
|--------------------|---------------------|---------------------|---------------------|
| General Employees  | \$22,921,644        | \$12,522,254        | \$35,443,898        |
| Police & Fire      | 31,534,718          | 15,163,262          | 46,697,980          |
| Retiree Healthcare | 3,134,954           | 1,688,053           | 4,823,007           |
|                    | <u>\$57,591,316</u> | <u>\$29,373,569</u> | <u>\$86,964,885</u> |

Total deposits and investments at December 31, 2004, were \$111,930,824 and are presented in the fund financial statements as follows:

| Balance Sheet Classification:                                  | Combined Total       |
|--|----------------------|
| Governmental Funds Balance Sheet                               |                      |
| Cash and Cash Equivalents                                      | \$2,192,580          |
| Investments  | 7,632,588            |
| Statement of Fund Net Assets – Proprietary Funds               |                      |
| Enterprise Funds   |                      |
| Cash and Cash Equivalents                                      | 5,042,717            |
| Restricted Cash and Cash Equivalents                           | 822,559              |
| Internal Service Funds   |                      |
| Cash and Cash Equivalents                                      | 1,396,796            |
| Statement of Fiduciary Net Assets – Fiduciary Funds            |                      |
| Cash and Cash Equivalents                                      | 6,952,996            |
| Investments  | 86,964,885           |
| Statement of Net Assets – Discretely Presented Component Units |                      |
| Cash and Cash Equivalents                                      | <u>925,703</u>       |
|  | <u>\$111,930,824</u> |



City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE C - CAPITAL ASSETS

- Primary Government - Capital asset activity for the year ended December 31, 2004 was as follows:

|                                 | Balance<br>January 1,<br>2004 | Additions           | Deletions          | Balance<br>December 31,<br>2004 |
|---------------------------------|-------------------------------|---------------------|--------------------|---------------------------------|
| Governmental Activities         |                               |                     |                    |                                 |
| Capital Assets Being            |                               |                     |                    |                                 |
| Depreciated and Amortized       |                               |                     |                    |                                 |
| Land Improvements               | \$ 890,649                    | \$ 1,350,507        | \$ -               | \$2,241,156                     |
| Leasehold Improvements          | -                             | 248,295             | -                  | 248,295                         |
| Building and Other Improvements | 15,140,627                    | 1,951,529           | 7,351              | 17,084,805                      |
| Machinery and Equipment         | 10,758,203                    | 533,038             | 492,644            | 10,798,597                      |
| Infrastructure                  | 3,572,799                     | 8,823,197           | -                  | 12,395,996                      |
| Shared Street Improvements      | 5,576,901                     | -                   | -                  | 5,576,901                       |
| Total Capital Assets Being      |                               |                     |                    |                                 |
| Depreciated and Amortized       | 35,939,179                    | 12,906,566          | 499,995            | 48,345,750                      |
| Less Accumulated                |                               |                     |                    |                                 |
| Depreciation and Amortization   |                               |                     |                    |                                 |
| Land Improvements               | 152,176                       | 35,447              | -                  | 187,623                         |
| Leasehold Improvements          | -                             | -                   | -                  | -                               |
| Building and Other Improvements | 10,917,040                    | 625,707             | 7,351              | 11,535,396                      |
| Machinery and Equipment         | 8,268,764                     | 750,625             | 487,738            | 8,531,651                       |
| Infrastructure                  | 92,775                        | 215,302             | -                  | 308,077                         |
| Shared Street Improvements      | 244,903                       | 278,845             | -                  | 523,748                         |
| Total Accumulated               |                               |                     |                    |                                 |
| Depreciation and Amortization   | 19,675,658                    | 1,905,926           | 495,089            | 21,086,495                      |
| Net Capital Assets Being        |                               |                     |                    |                                 |
| Depreciated and Amortized       | 16,263,521                    | 11,000,640          | 4,906              | 27,259,255                      |
| Capital Assets Not Being        |                               |                     |                    |                                 |
| Depreciated or Amortized        |                               |                     |                    |                                 |
| Land                            | 13,562,483                    | 110,135             | 184,650            | 13,487,968                      |
| Construction in Progress        | 9,376,716                     | 5,376,103           | 9,079,597          | 5,673,222                       |
| Total Capital Assets Not Being  |                               |                     |                    |                                 |
| Depreciated or Amortized        | 22,939,199                    | 5,486,238           | 9,264,247          | 19,161,190                      |
| Total Governmental Activities   |                               |                     |                    |                                 |
| Capital Assets Net of           |                               |                     |                    |                                 |
| Depreciation and Amortization   | <u>\$39,202,720</u>           | <u>\$16,486,878</u> | <u>\$9,269,153</u> | <u>\$46,420,445</u>             |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE C - CAPITAL ASSETS – Continued

|   | Balance<br>January 1,<br>2004 | Additions           | Deletions          | Balance<br>December 31,<br>2004 |
|---|-------------------------------|---------------------|--------------------|---------------------------------|
| <b>Business-Type Activities</b>                                   |                               |                     |                    |                                 |
| Capital Assets Being Depreciated                                  |                               |                     |                    |                                 |
| Land Improvements   | \$ 1,901,973                  | \$ -                | \$ -               | \$1,901,973                     |
| Buildings and Systems   | 50,561,243                    | 2,630,830           | -                  | 53,192,073                      |
| Machinery and Equipment   | 1,576,767                     | -                   | 16,459             | 1,560,308                       |
| Total Capital Assets Being Depreciated                            | 54,039,983                    | 2,630,830           | 16,459             | 56,654,354                      |
| <b>Less Accumulated Depreciation</b>                              |                               |                     |                    |                                 |
| Land Improvements   | 1,440,761                     | 48,322              | -                  | 1,489,083                       |
| Buildings and Systems   | 20,008,506                    | 845,877             | -                  | 20,854,383                      |
| Machinery and Equipment   | 765,773                       | 64,521              | 16,459             | 813,835                         |
| Total Accumulated Depreciation                                    | 22,215,040                    | 958,720             | 16,459             | 23,157,301                      |
| Net Capital Assets Being Depreciated                              | 31,824,943                    | 1,672,110           | -                  | 33,497,053                      |
| <b>Capital Assets Not Being Depreciated</b>                       |                               |                     |                    |                                 |
| Land  | 142,250                       | -                   | -                  | 142,250                         |
| Construction in Progress  | 9,385,041                     | 12,110,401          | 2,646,263          | 18,849,179                      |
| Total Capital Assets Not Being Depreciated                        | 9,527,291                     | 12,110,401          | 2,646,263          | 18,991,429                      |
| Total Business-Type Activities Capital Assets Net of Depreciation | <u>\$41,352,234</u>           | <u>\$13,782,511</u> | <u>\$2,646,263</u> | <u>\$52,488,482</u>             |

➤ Depreciation was charged to programs of the primary government as follows:

|  |                    |
|--|--------------------|
| <b>Governmental activities</b>   |                    |
| Administrative services  | \$438,130          |
| Financial services   | 2,631              |
| Public safety  | 96,198             |
| Public works   | 89,607             |
| Leisure services   | 248,429            |
| Planning and economic development  | 19,057             |
| Highways, streets and bridges  | 420,824            |
| General administration   | 4,816              |
| Internal service fund depreciation is charged to the various programs based on their usage of the assets | 586,234            |
| Total Governmental Activities Depreciation Expense   | <u>\$1,905,926</u> |
| <b>Business-type activities</b>  |                    |
| Water  | \$303,636          |
| Sewer  | 585,211            |
| Marina   | 69,873             |
| Total Business-Type Activities Depreciation Expense  | <u>\$958,720</u>   |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE C - CAPITAL ASSETS – Continued

- Discretely Presented Component Units – Capital asset activity for the City's discretely presented component units for the year ended December 31, 2004 was as follows:

|  | Balance<br>January 1,<br>2004 | Additions | Deletions | Balance<br>December 31,<br>2004 |
|--|-------------------------------|-----------|-----------|---------------------------------|
| Capital Assets Being Depreciated   |                               |           |           |                                 |
| Buildings and Other Improvements   | \$3,798,258                   | \$ -      | \$ -      | \$3,798,258                     |
| Less Accumulated Depreciation  |                               |           |           |                                 |
| Buildings and Other Improvements   | 14,387                        | 172,648   | -         | 187,035                         |
| Net Capital Assets Being Depreciated   | 3,783,871                     | 172,648   | -         | 3,611,223                       |
| Capital Assets Not Being Depreciated   |                               |           |           |                                 |
| Land   | 400,000                       | -         | -         | 400,000                         |
| Total Discretely Presented Component<br>Units Capital Assets Net of Depreciation | \$4,183,871                   | \$172,648 | \$ -      | \$4,011,223                     |

- Construction Commitments – As of December 31, 2004, the City and its component units had the following active construction projects and related commitments with contractors:

| Project Name                                | Spent-to-Date | Remaining<br>Commitment |
|---|---------------|-------------------------|
| Water Filtration Plant Improvements         | \$10,473,200  | \$5,440,132             |
| Shoreline Drive Phase II                    | 142,482       | 2,357,518               |
| Mall Redevelopment Construction Engineering | 146,977       | 152,000                 |
| Forest Street Lift Station                  | 5,844         | 104,156                 |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE D - LONG-TERM DEBT

➤ Following is a summary of long-term debt transactions for the year ended December 31, 2004:

|   | Balance<br>January 1,<br>2004 | Borrowings         | Payments           | Balance<br>December 31,<br>2004 | Amounts Due<br>Within One<br>Year |
|---|-------------------------------|--------------------|--------------------|---------------------------------|-----------------------------------|
| <u>Business-Type Activities</u>             |                               |                    |                    |                                 |                                   |
| Revenue Debt                                | \$9,345,000                   | \$8,483,766        | \$420,000          | \$17,408,766                    | \$435,000                         |
| Intergovernmental Contractual Debt          | 5,886,923                     | -                  | 1,107,267          | 4,779,656                       | 1,080,974                         |
| Long-Term Compensated Absences              | 189,957                       | 19,515             | 31,659             | 177,813                         | 30,228                            |
|   | <u>15,421,880</u>             | <u>8,503,281</u>   | <u>1,558,926</u>   | <u>22,366,235</u>               | <u>1,546,202</u>                  |
| <u>Governmental Activities</u>              |                               |                    |                    |                                 |                                   |
| Intergovernmental Contractual Debt          | 1,126,900                     | -                  | 150,000            | 976,900                         | 150,000                           |
| Michigan Transportation Fund Debt           | 2,785,000                     | -                  | 555,000            | 2,230,000                       | 585,000                           |
| General Obligation Debt                     | 205,000                       | -                  | 205,000            | -                               | -                                 |
| Special Assessment Debt                     | 3,035,000                     | -                  | 425,000            | 2,610,000                       | 380,000                           |
| Long-Term Compensated Absences              | 1,455,952                     | 354,498            | 242,658            | 1,567,792                       | 261,299                           |
|   | <u>8,607,852</u>              | <u>354,498</u>     | <u>1,577,658</u>   | <u>7,384,692</u>                | <u>1,376,299</u>                  |
| Total Primary Government Long-Term Debt     | <u>24,029,732</u>             | <u>8,857,779</u>   | <u>3,136,584</u>   | <u>29,750,927</u>               | <u>2,922,501</u>                  |
| <u>Discretely Presented Component Units</u> |                               |                    |                    |                                 |                                   |
| Revenue Debt                                | 1,000,000                     | -                  | -                  | 1,000,000                       | -                                 |
| General Obligation Debt                     | 8,395,000                     | -                  | 180,000            | 8,215,000                       | 185,000                           |
|   | <u>9,395,000</u>              | <u>-</u>           | <u>180,000</u>     | <u>9,215,000</u>                | <u>185,000</u>                    |
|   | <u>\$33,424,732</u>           | <u>\$8,857,779</u> | <u>\$3,316,584</u> | <u>\$38,965,927</u>             | <u>\$3,107,501</u>                |

➤ The general fund typically provides the resources to liquidate the compensated absences liability.

➤ Long-term debt payable at December 31, 2004, consisted of the following individual issues:

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

| <b>Primary Government</b>   |                            |
|---|----------------------------|
| <b>Business-Type Activities</b>   |                            |
| \$5,465,000 water supply system bonds of 1993 due in two installments of \$450,000 from May 1, 2012 through May 1, 2013; interest at 4.50% (unamortized discount \$14,796).         | \$ 900,000                 |
| \$9,575,000 water supply system bonds of 1999 due in annual installments of \$130,000 to \$800,000 through May 1, 2019; interest at 3.95% to 4.75% (unamortized discount \$68,920). | 8,025,000                  |
| \$13,900,000 drinking water state revolving fund loan of 2004 due in annual installments of \$128,766 to \$725,000 through 2019; interest at 2.125%.                                | 8,483,766                  |
| \$6,990,000 contractual obligation of 2002 for County wastewater debt due in annual installments of \$116,862 to \$1,244,580 through 2019; interest at 2.25% to 5.00%.              | 3,815,544                  |
| \$8,034,263 contractual obligation of 1996 for County wastewater debt retirement with a final payment of \$964,112 on July 1, 2005; interest at 5.70%.                              | <u>964,112</u>             |
| <b>Total Bonds and Loans Payable</b>  | <b>22,188,422</b>          |
| Long-term compensated absences  | <u>177,813</u>             |
| <b>Total Business-Type Activities Long-Term Liabilities</b>   | <b><u>\$22,366,235</u></b> |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

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|   |                            |
|---|----------------------------|
| <b>Governmental Activities</b>  |                            |
| \$1,155,000 special assessment improvement bonds of 1996 with final payment of \$25,000 on December 1, 2005; interest at 4.40%.   | \$25,000                   |
| <br>  |                            |
| \$1,495,000 special assessment improvement bonds of 1998 due in annual installments of \$60,000 to \$165,000 through April 1, 2009; interest at 3.95% to 4.00%.   | 615,000                    |
| <br>  |                            |
| \$825,000 special assessment improvement bonds of 2000 due in annual installments of \$70,000 to \$90,000 through April 1, 2010; interest at 4.60% to 5.00%.  | 500,000                    |
| <br>  |                            |
| \$1,575,000 capital improvement bonds of 2003 due in annual installments of \$105,000 to \$150,000 through June 1, 2016; interest at 2.00% to 4.05%.  | 1,470,000                  |
| <br>  |                            |
| \$1,276,900 State of Michigan urban land assembly loan due in annual installments of \$150,000 to \$276,900 through October 31, 2009; interest free.  | 976,900                    |
| <br>  |                            |
| \$2,245,000 Michigan Transportation Fund bonds of 2002 for street improvements due in annual installments of \$370,000 to \$400,000 through June 1, 2008; interest at 2.25% to 3.13% (unamortized premium \$4,593). | 1,545,000                  |
| <br>  |                            |
| \$1,950,000 Michigan Transportation Fund bonds of 1998 for street improvements due in annual installments of \$215,000 to \$240,000 through December 1, 2007; interest at 4.15% to 4.25%.                           | <u>685,000</u>             |
| <br>  |                            |
| <b>Total Bonds and Loans Payable</b>  | <b>5,816,900</b>           |
| <br>  |                            |
| Long-term compensated absences  | <u>1,461,844</u>           |
| <br>  |                            |
| <b>Total Governmental Activities Long-Term Liabilities</b>  | <b><u>\$7,278,744</u></b>  |
| <br>  |                            |
| <b>Total Primary Government Long-Term Debt</b>  | <b><u>\$29,644,979</u></b> |

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City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

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|   |                                |
|---|--------------------------------|
| <b><u>Discretely Presented Component Units Debt</u></b>   |                                |
| \$1,000,000 Downtown Development Authority promissory note to Muskegon County due in a balloon payment August 30, 2019; interest free.  | \$1,000,000                    |
| \$4,005,000 Downtown Development Authority tax increment refunding bonds of 2001 due in annual installments of \$185,000 to \$335,000 through June 1, 2018; interest at 4.00% to 5.00%.   | 3,490,000                      |
| \$4,725,000 Local Development Finance Authority tax increment bonds of 2002 for building improvements in the Smartzone Tech Park due in annual installments of \$80,000 to \$400,000 through November 1, 2025; interest at 3.25% to 4.85% (unamortized discount \$8,018). | <u>4,725,000</u>               |
| <br><b>Total Discretely Presented Component Units Long-Term Debt</b>  | <br><b><u>\$9,215,000</u></b>  |
| <br><b>Total Reporting Entity Long-Term Debt</b>  | <br><b><u>\$38,859,979</u></b> |

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City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

- The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$10,236,504 are as follows:

| Year<br>Ending<br>December<br>31 | Business-Type Activities |                    | Governmental Activities |                  | Discretely Presented<br>Component Units |                    | Totals              |
|----------------------------------|--------------------------|--------------------|-------------------------|------------------|---|--------------------|---------------------|
|                                  | Principal                | Interest           | Principal               | Interest         | Principal                               | Interest           |                     |
| 2005                             | \$1,515,974              | \$780,524          | \$1,115,000             | \$158,123        | \$185,000                               | \$358,340          | \$4,112,961         |
| 2006                             | 2,264,580                | 730,612            | 1,120,000               | 126,535          | 200,000                                 | 350,640            | 4,792,367           |
| 2007                             | 2,277,894                | 637,610            | 1,170,000               | 93,966           | 280,000                                 | 342,640            | 4,802,110           |
| 2008                             | 2,301,208                | 544,253            | 880,000                 | 60,379           | 290,000                                 | 331,840            | 4,407,680           |
| 2009                             | 1,110,000                | 450,253            | 536,900                 | 43,685           | 300,000                                 | 320,220            | 2,761,058           |
| 2010                             | 1,150,000                | 415,749            | 190,000                 | 34,755           | 310,000                                 | 307,813            | 2,408,317           |
| 2011                             | 1,185,000                | 379,461            | 120,000                 | 28,805           | 320,000                                 | 294,605            | 2,327,871           |
| 2012                             | 1,220,000                | 341,153            | 125,000                 | 24,393           | 425,000                                 | 280,834            | 2,416,380           |
| 2013                             | 1,260,000                | 301,011            | 130,000                 | 19,610           | 500,000                                 | 262,268            | 2,472,889           |
| 2014                             | 1,305,000                | 259,218            | 135,000                 | 14,508           | 575,000                                 | 240,715            | 2,529,441           |
| 2015                             | 1,350,000                | 215,510            | 145,000                 | 8,975            | 605,000                                 | 215,435            | 2,539,920           |
| 2016                             | 1,390,000                | 169,805            | 150,000                 | 3,028            | 640,000                                 | 188,343            | 2,541,176           |
| 2017                             | 1,440,000                | 122,025            | -                       | -                | 670,000                                 | 159,088            | 2,391,113           |
| 2018                             | 1,490,000                | 71,744             | -                       | -                | 710,000                                 | 127,750            | 2,399,494           |
| 2019                             | 928,766                  | 21,266             | -                       | -                | 1,395,000                               | 103,063            | 2,448,095           |
| 2020                             | -                        | -                  | -                       | -                | 400,000                                 | 85,485             | 485,485             |
| 2021                             | -                        | -                  | -                       | -                | 255,000                                 | 67,085             | 322,085             |
| 2022                             | -                        | -                  | -                       | -                | 265,000                                 | 55,355             | 320,355             |
| 2023                             | -                        | -                  | -                       | -                | 280,000                                 | 43,165             | 323,165             |
| 2024                             | -                        | -                  | -                       | -                | 295,000                                 | 29,585             | 324,585             |
| 2025                             | -                        | -                  | -                       | -                | 315,000                                 | 15,279             | 330,279             |
|                                  | <u>\$22,188,422</u>      | <u>\$5,440,194</u> | <u>\$5,816,900</u>      | <u>\$616,762</u> | <u>\$9,215,000</u>                      | <u>\$4,179,548</u> | <u>\$47,456,826</u> |

- Future debt service requirements (i.e. principal and interest) by type of debt are as follows:

|             | General Obligation Bonds     |   | Revenue Bonds       |   |
|-------------|------------------------------|---|---------------------|---|
|             | General<br>Long-Term<br>Debt | Discretely<br>Presented<br>Component<br>Units | Enterprise<br>Funds | Discretely<br>Presented<br>Component<br>Units |
| 2005        | \$ -                         | \$543,340                                     | \$1,000,484         | \$ -  |
| 2006        | -                            | 550,640                                       | 1,565,678           | -   |
| 2007        | -                            | 622,640                                       | 1,559,904           | -   |
| 2008        | -                            | 621,840                                       | 1,563,193           | -   |
| 2009        | -                            | 620,220                                       | 1,560,243           | -   |
| 2010        | -                            | 617,813                                       | 1,565,749           | -   |
| 2011 - 2015 | -                            | 3,718,856                                     | 7,816,351           | -   |
| 2016 - 2020 | -                            | 3,478,733                                     | 5,633,619           | 1,000,000                                     |
| 2021 - 2025 | -                            | 1,620,465                                     | -                   | -   |
|             | <u>\$ 0</u>                  | <u>\$12,394,547</u>                           | <u>\$22,265,221</u> | <u>\$1,000,000</u>                            |



City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

|            | <u>Intergovernmental</u>                 | <u>Special<br/>Assessment</u>      | <u>Michigan<br/>Transportation<br/>Fund Bonds</u> |
|------------|--|------------------------------------|---|
|            | <u>Business-<br/>Type<br/>Activities</u> | <u>Governmental<br/>Activities</u> | <u>Governmental<br/>Activities</u>                |
| 2005       | \$1,296,015                              | \$150,000                          | \$471,865   |
| 2006       | 1,429,514                                | 150,000                            | 433,175   |
| 2007       | 1,355,599                                | 200,000                            | 395,828   |
| 2008       | 1,282,267                                | 200,000                            | 344,285   |
| 2009       | -  | 276,900                            | 303,684   |
| 2010       | -  | -                                  | 224,755   |
| 2011 -2015 | -  | -                                  | 751,291   |
| 2016 -2020 | -  | -                                  | 153,034   |
| 2021 -2025 | -  | -                                  | -   |
|            | <u>\$5,363,395</u>                       | <u>\$976,900</u>                   | <u>\$3,077,917</u>                                |
|            |  |                                    | <u>\$2,378,847</u>                                |

- There are a number of limitations and restrictions contained in the various bond indentures. The City is in substantial compliance with all the significant provisions of the bond indentures.
- The limited full faith and credit of the City has been pledged for repayment of special assessments bonds.
- The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 are partially guaranteed by the Community Foundation for Muskegon County. Beginning in 2006, if LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfall up to \$75,000 annually. This commitment extends through December 31, 2016.
- Construction continues on improvements to the City's water filtration plant. This project is being financed through the Michigan Drinking Water Revolving Fund Program (DWRF). Principal and interest payment schedules will be finalized upon completion of the project. The preliminary principal and interest payment schedules are used herein up to the amounts of advances as of December 31, 2004. As a result, the payment schedules for the balance of the twenty-year repayment period will increase as additional funds are advanced.

NOTE E - RECEIVABLES, PAYABLES AND TRANSFERS WITHIN THE REPORTING ENTITY

- Property taxes are collected in a central current tax fund from where they are distributed to the various taxing jurisdictions - including the City and its component units. Amounts owed the City at December 31, 2004 are shown as interfund payables/receivables. The amount due to the state grants fund from the lakeshore trail fund is for a match on a grant. Other interfund payables/receivables consist entirely of temporary loans to cover cash shortfalls in a given fund.
- Receivables and payables consisted of the following at December 31, 2004 :

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

**NOTE E - RECEIVABLES, PAYABLES AND TRANSFERS WITHIN THE REPORTING ENTITY**

| Fund/Component Unit             | Receivable                | Fund/Component Unit               | Payable                   |
|---------------------------------|---------------------------|-----------------------------------|---------------------------|
| General                         | <u>\$1,321,441</u>        | Current Tax                       | <u>\$1,321,441</u>        |
| Major Street and Trunkline      | 5,207,840                 | General                           | 6,448,026                 |
| Budget Stabilization            | <u>1,240,186</u>          |                                   |                           |
|                                 | <u>6,448,026</u>          |                                   | <u>6,448,026</u>          |
| Equipment                       | 909,725                   | Enterprise Community              | 4,281                     |
| Budget Stabilization            | 9,814                     | EC Micro Loan                     | 7,723                     |
|                                 |                           | Rehab Loan Escrow                 | 4,586                     |
|                                 |                           | HOME Rehabilitation               | 32,940                    |
|                                 |                           | Community Development Block Grant | 478,104                   |
|                                 |                           | State Grants                      | 290,310                   |
|                                 |                           | Marina                            | 72,605                    |
|                                 | <u>919,539</u>            | Cemetery Perpetual Care           | <u>28,990</u>             |
|                                 |                           |                                   | <u>919,539</u>            |
| <b>Total Primary Government</b> | <b><u>\$8,689,006</u></b> | <b>Total Primary Government</b>   | <b><u>\$8,689,006</u></b> |
| <b>Total Reporting Entity</b>   | <b><u>\$8,689,006</u></b> | <b>Total Reporting Entity</b>     | <b><u>\$8,689,006</u></b> |

➤ Transfers consisted of the following for the year ended December 31, 2004:

| Fund    | Transfers Out    | Fund                   | Transfers In     |
|---------|------------------|------------------------|------------------|
| General | \$1,156,328      | Local Street           | \$620,000        |
|         |                  | L.C. Walker Arena      | 200,000          |
|         |                  | State Grants           | 21,328           |
|         |                  | Sidewalk Improvement   | 125,000          |
|         |                  | Public Improvement     | 150,000          |
|         |                  | Marina and Launch Ramp | 40,000           |
|         | <u>1,156,328</u> |                        | <u>1,156,328</u> |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

**NOTE E - RECEIVABLES, PAYABLES AND TRANSFERS WITHIN THE REPORTING ENTITY – Continued**

| Fund                                 | Transfers Out             | Fund                          | Transfers In              |
|--------------------------------------|---------------------------|-------------------------------|---------------------------|
| Budget Stabilization                 | 250,000                   | General                       | 301,209                   |
| Revolving Loan                       | 5,000                     |                               |                           |
| State Grants                         | 2,802                     |                               |                           |
| Cemetery Perpetual Care              | 43,407                    |                               |                           |
|                                      | <u>301,209</u>            |                               | <u>301,209</u>            |
| Major Street and Trunkline           | 303,275                   | Local Street                  | 300,000                   |
|                                      |                           | Sidewalk Improvement          | 3,275                     |
|                                      | <u>303,275</u>            |                               | <u>303,275</u>            |
| Local Street                         | 39,446                    | Sidewalk Improvement          | 32,426                    |
|                                      |                           | Water                         | 7,020                     |
|                                      | <u>39,446</u>             |                               | <u>39,446</u>             |
| Special Assessment Debt              | 77,810                    | Sidewalk Improvement          | 77,810                    |
| Public Improvement                   | 95,400                    | Sewer                         | 47,796                    |
|                                      |                           | Water                         | 47,604                    |
|                                      | <u>95,400</u>             |                               | <u>95,400</u>             |
| Revolving Loan Fund                  | 930,000                   | Public Improvement            | 930,000                   |
| General Insurance                    | 251,663                   | L.C. Walker Arena             | 251,663                   |
| General Employees Retirement System  | 564,944                   | General Insurance             | 1,240,959                 |
| Police and Firemen Retirement System | 676,015                   |                               |                           |
|                                      | <u>1,240,959</u>          |                               | <u>1,240,959</u>          |
| Public Improvement                   | 43,840                    | State Grants                  | 329,901                   |
| Lakeshore Trail                      | 286,061                   |                               |                           |
|                                      | <u>329,901</u>            |                               | <u>329,901</u>            |
| <b>Total Reporting Entity</b>        | <u><b>\$4,725,991</b></u> | <b>Total Reporting Entity</b> | <u><b>\$4,725,991</b></u> |

➤ Each year, the general fund transfers funds to the local and major street funds and to the public improvement fund to finance capital improvement projects. The general fund also provides an operating subsidy transfer to the L.C. Walker arena fund. Also on an annual basis, the City's pension funds transfer funds to the City's insurance fund to offset the cost of retiree healthcare benefits. Other transfers between funds are made to meet grant matching requirements or other operational needs.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

**NOTE F - DEFINED BENEFIT PENSION PLANS**

- The primary government maintains two separate single employer contributory pension plans - the General Employees Retirement System and the Policemen and Firemen Retirement System - which cover all active full-time employees of the City. The pension plans are maintained as pension trust funds and are included as part of the City's reporting entity. Staff costs associated with administering the plans are paid from the city's general fund. Contractual service costs for investment management and consulting, actuarial services, custodial services and similar items are paid from investment earnings of the funds. Financial statements for the pension plans can be obtained from the administrative office 933 Terrace Street, Muskegon, MI 49443.

- Plan Descriptions - The following schedule is derived from the respective actuarial reports and from City information and reflects accounting policies, membership and plan provisions and actuarial assumptions for the two pension plans as of December 31, 2003:

|   | General<br>Employees                                   | Policemen and<br>Firemen                               |
|---|--|--|
| <b>General Information:</b>   |  |  |
| Authority   | City Ordinance   | City Ordinance   |
| Basis of Accounting   | Accrual  | Accrual  |
| Asset Valuation:  |  |  |
| Reporting   | Fair Value   | Fair Value   |
| Actuarial Valuation   | Four-Year Smoothed<br>Market                           | Four-Year Smoothed<br>Market                           |
| Valuation Date  | December 31, 2003                                      | December 31, 2003                                      |
| Actuarial Cost Method   | Entry Age Normal –<br>level percent of<br>compensation | Entry Age Normal –<br>level percent of<br>compensation |
| Amortization Method   | Level Percent (Open)                                   | Level Percent (Open)                                   |
| Remaining Amortization Period   | 10 Years   | 10 Years   |
| Non-government investments in excess of 5%                            | None   | None   |
| <b>Membership And Plan Provisions:</b>                                |  |  |
| Members:  |  |  |
| Active Participants   | 167  | 121  |
| Retirees and Beneficiaries Receiving<br>Benefits                      | 158  | 155  |
| Terminated Plan Members Entitled to But Not Yet<br>Receiving Benefits | 22   | 6  |
| Member Contributions:   |  |  |
| First \$4,200 of Earnings   | 3.0%   | 6.0%   |
| Excess of \$4,200 of Earnings   | 5.0%   | 6.0%   |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE F - DEFINED BENEFIT PENSION PLANS - Continued

|  | General<br>Employees | Policemen and<br>Firemen |
|--|----------------------|--------------------------|
| Normal Retirement Benefit:                                   |                      |                          |
| Retirement Age   | 55 - 60              | 53 - 55                  |
| Years of Service (Minimum)                                   | 5 - 30               | 10 - 25                  |
| Accrual (First \$4,200 final average compensation)           | 1.9% - 2.25%         | 2.5% - 2.6%              |
| Final average compensation in excess of \$4,200              | 1.9% - 2.25%         | 2.5% - 2.6%              |
| Maximum (% of final average compensation)                    | None                 | 75%-80%                  |
| Years to Vest  | 5 - 10               | 10                       |
| Assumptions:   |                      |                          |
| Investment Earnings  | 8.0%                 | 8.0%                     |
| Salary Increases   | 5.0% - 8.8%          | 5.0% - 8.0%              |
| Investment and salary assumptions include inflation at 5.0%. |                      |                          |

- Basis of Accounting - The pension plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period they are due. The City's contributions to the plans are recognized when due and the City has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.
- Funding Policy - The City is obligated by the state constitution to make annual contributions to each of its pension plans based on actuarially computed percentages of covered wages in amounts sufficient to cover the normal cost of benefits and amortize prior service liabilities over a period of future years. Actuarial assumptions used in determining the annual funding requirements are set by the boards of trustees of each system. During the year ended December 31, 2004, contributions were made to the plans in accordance with contribution requirements determined by actuarial valuations of the plans as of December 31, 2003, and were as follows:

|                                    | General<br>Employees | Policemen<br>and Firemen |
|------------------------------------|----------------------|--------------------------|
| Retirement Contributions – Members | \$320,651            | \$ 396,373               |
| Retirement Contributions – City    | <u>382,193</u>       | <u>1,035,172</u>         |
|                                    | <u>\$702,844</u>     | <u>\$1,431,545</u>       |

- Benefits – Pension benefit levels are established through negotiation and contract with the City's various collective bargaining units. Benefit levels for non-represented employees are established by policy of the City Commission.
- Investments - Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost which approximates fair value; securities traded on a national exchange are valued at the last reported sales price; investments that do not have established fair values are reported at estimated fair value; and, cash deposits are reported at carrying amount which reasonably estimates fair value. The following summarizes the carrying values of investments of the City's two pension plans at December 31, 2004:

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE F - DEFINED BENEFIT PENSION PLANS - Continued

|                                  | Cost                | Fair Value          |
|----------------------------------|---------------------|---------------------|
| <b>General Employees</b>         |                     |                     |
| Bond index fund                  | \$11,705,710        | \$12,522,254        |
| Common stocks (collective funds) | 15,001,083          | 22,921,644          |
| Other instruments                | <u>530,763</u>      | <u>530,763</u>      |
|                                  | <u>\$27,237,556</u> | <u>\$35,974,661</u> |
| <b>Policemen and Firemen</b>     |                     |                     |
| Bond index fund                  | \$14,174,505        | \$15,163,262        |
| Common stocks (collective funds) | 20,687,008          | 31,534,718          |
| Other instruments                | <u>521,334</u>      | <u>521,334</u>      |
|                                  | <u>\$35,382,847</u> | <u>\$47,219,314</u> |

- GASB 25 Required Information - Three-year trend information as required by GASB 25 is presented below. GASB 25 required supplementary information is presented after the Notes to the Financial Statements.

| Trend Information                            |                                      |                              |                           |                           |
|--|--------------------------------------|------------------------------|---------------------------|---------------------------|
| Actuarial<br>Valuation Dated<br>December 31, | Fiscal Year<br>Ended<br>December 31, | Annual Pension<br>Cost (APC) | Percentage<br>Contributed | Net Pension<br>Obligation |
| <b><u>General Employees</u></b>              |                                      |                              |                           |                           |
| 1999   | 2001                                 | \$ -                         | -                         | -                         |
| 2000   | 2002                                 | -                            | -                         | -                         |
| 2001   | 2003                                 | 121,414                      | 100.00%                   | -                         |
| <b><u>Policemen and Firemen</u></b>          |                                      |                              |                           |                           |
| 1999   | 2001                                 | \$96,549                     | 100.00%                   | -                         |
| 2000   | 2002                                 | 290,431                      | 100.00%                   | -                         |
| 2001   | 2003                                 | 435,687                      | 100.00%                   | -                         |

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

**NOTE G - OTHER POST EMPLOYMENT BENEFITS**

- In addition to the pension benefits described in Note F, the City provides healthcare benefits to retirees receiving a City pension. As of December 31, 2004, 313 retirees or beneficiaries were eligible for post-employment health care benefits. Specific benefit provisions vary by employee group; however, in general, benefits for retirees under age 65 are the same as for regular employees while retirees over 65 receive a Medicare supplemental benefit. Since 1987, the City has had an actuarial valuation of its post employment healthcare obligation performed each year and has followed a program of prefunding the obligation in the same manner as it funds the pension obligation. During 2004, the City made contributions to the retiree healthcare program as follows:

|                   | General Employees | Police and Firemen |
|-------------------|-------------------|--------------------|
| Contribution      | \$ 325,694        | \$ 641,607         |
| As a % of Payroll | 4.9%              | 9.7%               |

As of December 31, 2003 the total unfunded actuarial accrued liability computed for the City's retiree health benefits was \$7,326,180.

**NOTE H - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS**

- P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

|  | Amended Budget | Actual Expenditures |
|--|----------------|---------------------|
| <b>Local Street Fund</b>               | \$1,850,000    | \$1,882,327         |
| <b>Major Street and Trunkline Fund</b> | 7,360,000      | 7,449,375           |

- The budget overage in the above funds resulted from higher than expected year-end accruals of certain project expenses.
- All expenditures over appropriations have either been paid by available revenues, transfers from other funds or by reduction of the current fund balance.

**NOTE I – SECTION 457 DEFERRED COMPENSATION PLAN**

- The City offers all full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the City's financial statements.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE J - RISK MANAGEMENT

- The City purchases insurance, participates in public entity risk pools and is self-insured for the various risks associated with City operations. The City's risk financing activities are accounted for in the general insurance internal service fund. Significant risk management activities of the City are accounted for and disclosed below as required by GASB 10.
- The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains its liability and property insurance coverage as a member of the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing liability and property coverage to its participating members. The City pays an annual premium to MMRMA for liability insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence based coverage by internally insuring certain risks and reinsuring risks through commercial companies. A \$100,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2004 and 2003 were as follows:

|  | City General Liability |                  |
|--|------------------------|------------------|
|  | 2004                   | 2003             |
| Claims Liability at January 1                | \$120,829              | \$119,422        |
| Current Year Claims and Changes in Estimates | 80,081                 | 115,266          |
| Claim Payments                               | (83,333)               | (113,859)        |
| Claims Liability at December 31              | <u>\$117,577</u>       | <u>\$120,829</u> |

- The City manages workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public risk pool providing workers' compensation coverage to its members. The City pays an annual premium to MMWCSIF for its workers compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.
- The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the general insurance fund provides coverage for up to a maximum of \$125,000 per covered individual. As of December 31, 2004, the claims liability including incurred but not reported claims was \$85,879. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2004 and 2003 were as follows:

|  | City Employee Medical |                 |
|--|-----------------------|-----------------|
|  | 2004                  | 2003            |
| Claims Liability at January 1                | \$97,521              | \$97,055        |
| Current Year Claims and Changes in Estimates | 1,376,480             | 1,527,828       |
| Claim Payments                               | (1,388,122)           | (1,527,362)     |
| Claims Liability at December 31              | <u>\$85,879</u>       | <u>\$97,521</u> |



City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE K - CONTINGENCIES

- The City has advanced funds in the amount of \$1,933,844 to the Downtown Development Authority (DDA) for activities involving redevelopment of the downtown area. Repayment of these advances is contingent upon collection of tax increment revenue (or "Proposal A" replacement revenues from the State) in excess of the amounts needed for debt service payments on outstanding bond issues. Repayment was uncertain and the advances were written off for financial statement purposes. If excess tax increment revenue (or "Proposal A" replacement revenues from the State) become available, the City will apply such revenue to repayment of the advances. The following advances were outstanding at December 31, 2004:

| Date of Obligation | Original Amount | Outstanding Balance | Interest Rate |
|--------------------|-----------------|---------------------|---------------|
| 8/10/1989          | \$1,150,000     | \$1,150,000         | 0.0%          |
| 8/31/1989          | 783,844         | 662,032             | 7.0%          |

- The City is party to various other legal proceedings and claims which normally occur in governmental operations. Although the outcome of these legal proceedings and claims are not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.
- In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE L - DESIGNATED FUND BALANCE

- Unreserved fund balances designated for specific purposes at December 31, 2004, are as follows:

| Public Improvement Fund                         |                  |
|---|------------------|
| Designated for Fire Equipment Replacement       | \$470,086        |
| Designated for Pere Marquette Park Improvements | 6,027            |
|   | <u>\$476,113</u> |

NOTE M - PRIOR PERIOD ADJUSTMENT

- Local street fund financial statements for December 31, 2003 included \$129,500 of accrued special assessment revenue which was not collected because the assessment was deferred by the City in 2004. Therefore, the December 31, 2004 financial statements incorporate a prior period adjustment which has the effect of reducing the beginning local street fund balance by \$129,500. The restatement has no effect on the net assets of the City. The adjustment was made without material impact on city operations.

City of Muskegon  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE N – SUBSEQUENT YEAR INFORMATION

- Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local unit users, including the City of Muskegon, was amended to provide financial relief to the County's largest industrial wastewater user. Under terms of the amendment, the allocation of debt service costs charged to each local unit user will increase. The impact of this change on the City of Muskegon's sewer fund is estimated as follows:
- The sewer fund's total debt obligation ("Contracts payable-Muskegon County") will decrease by 15%. This is because the major industrial user that is recipient of the relief measure is a City of Muskegon sewer customer. The City carries on its books the portion of the debt guaranteed by this industrial user since it is ultimately liable for repayment of this debt.
- The sewer fund's annual debt service costs and wastewater user charges will increase as follows:
- Debt service – Annual payments on two outstanding Muskegon County wastewater bond issues will increase for all local units (including the City) by twenty-one percent. The City estimates the 2005 financial impact to be \$110,911. These bond issues will be fully retired in 2008.
- User charges – Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units (including the City) by forty-five percent. The City of Muskegon estimates the 2005 financial impact to be \$84,000.

NOTE O – STATE CONSTRUCTION CODE ACT

- P.A. 245 of 1999, section 22(1) of the State Construction Code Act, requires fees generated by enforcing agencies of construction board of appeals be intended to bear a reasonable relationship to the actual cost of performing those services. The fees generated by the City's enforcing agencies and the costs of providing those services were as follows for the year ended December 31, 2004:

|                                       |                    |
|---------------------------------------|--------------------|
| <b>Revenues</b>                       |                    |
| Building permits                      | \$350,102          |
| Plumbing permits                      | 50,711             |
| Mechanical permits                    | 66,682             |
| Electrical permits                    | 103,989            |
| Total Revenues                        | <u>\$571,484</u>   |
| <b>Expenses</b>                       |                    |
| Salaries and benefits                 | \$780,291          |
| Supplies                              | 18,942             |
| Contractual services                  | 189,915            |
| Other expenses                        | 9,908              |
| Total Expenses                        | <u>\$999,056</u>   |
| Deficiency of revenues under expenses | <u>(\$427,572)</u> |

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Muskegon  
General Fund

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL**

Year Ended December 31, 2004  
(With Comparative Actual Amounts for Year Ended December 31, 2003)

|   | 2004               |                   |                   | Variance - With<br>Amended Budget<br>Positive<br>(Negative) | 2003              |
|---|--------------------|-------------------|-------------------|---|-------------------|
|   | Original<br>Budget | Amended<br>Budget | Actual            |   | Actual            |
| <b>Revenues</b>                                       |                    |                   |                   |   |                   |
| <b>Taxes</b>  |                    |                   |                   |   |                   |
| City income tax                                       | \$ 6,450,000       | \$ 7,004,400      | \$ 7,033,387      | \$ 28,987   | \$ 6,542,355      |
| Property taxes  | 6,330,610          | 6,253,900         | 6,253,935         | 35  | 6,175,861         |
| Industrial facilities taxes                           | 364,327            | 398,900           | 398,934           | 34  | 446,557           |
| Payments in lieu of taxes                             | 80,000             | 72,800            | 72,816            | 16  | 70,085            |
| Delinquent chargeback collected                       | 15,000             | 7,900             | 7,968             | 68  | 11,886            |
| <b>Total taxes</b>                                    | <b>13,239,937</b>  | <b>13,737,900</b> | <b>13,767,040</b> | <b>29,140</b>   | <b>13,246,744</b> |
| <b>Licenses and permits</b>                           |                    |                   |                   |   |                   |
| Business licenses                                     | 34,500             | 33,800            | 33,835            | 35  | 28,455            |
| Liquor licenses                                       | 37,500             | 35,600            | 35,681            | 81  | 36,427            |
| Cable TV fees   | 270,000            | 333,600           | 333,618           | 18  | 265,532           |
| Telecom fees  | 140,000            | -                 | -                 | -   | 32,024            |
| Housing licenses                                      | 80,000             | 46,600            | 46,625            | 25  | 96,265            |
| Rental property registration                          | -                  | 14,500            | 14,584            | 84  | -                 |
| Burial permits  | 110,000            | 102,700           | 102,702           | 2   | 103,564           |
| Building permits                                      | 300,000            | 350,100           | 350,102           | 2   | 275,642           |
| Electrical permits                                    | 135,000            | 103,900           | 103,989           | 89  | 125,718           |
| Plumbing permits                                      | 60,000             | 50,700            | 50,711            | 11  | 50,030            |
| Mechanical permits                                    | 100,000            | 66,600            | 66,682            | 82  | 94,013            |
| Cat licenses  | -                  | 400               | 485               | 85  | -                 |
| Police gun registration                               | 1,000              | -                 | -                 | -   | 1,110             |
| <b>Total licenses and permits</b>                     | <b>1,268,000</b>   | <b>1,138,500</b>  | <b>1,139,014</b>  | <b>514</b>  | <b>1,108,780</b>  |
| <b>Federal grants</b>                                 |                    |                   |                   |   |                   |
| Federal operational grants                            | 100,087            | 233,100           | 233,158           | 58  | 211,597           |
| <b>State grants</b>                                   |                    |                   |                   |   |                   |
| State operational grants                              | 27,000             | 33,100            | 33,127            | 27  | 23,264            |
| <b>State shared revenues</b>                          |                    |                   |                   |   |                   |
| State sales tax                                       | 5,000,000          | 4,651,300         | 4,645,348         | (5,952)   | 4,938,861         |
| <b>Charges for services</b>                           |                    |                   |                   |   |                   |
| Tax administration fees                               | 233,000            | 228,800           | 228,801           | 1   | 264,949           |
| Utility administration fees                           | 183,439            | 183,400           | 183,439           | 39  | 183,439           |
| Downtown Development Authority<br>administration fees | 10,000             | 10,000            | 10,000            | -   | 10,000            |
| Reimbursement for elections                           | 13,000             | 15,600            | 15,626            | 26  | 30,648            |
| Indirect cost reimbursement                           | 1,012,708          | 1,012,700         | 1,012,708         | 8   | 974,894           |
| Site plan review fee                                  | 1,000              | 2,700             | 2,700             | -   | 780               |
| Sale of cemetery lots                                 | 20,000             | 18,300            | 18,324            | 24  | 18,233            |
| Police miscellaneous                                  | 65,000             | 64,600            | 64,684            | 84  | 83,060            |
| Police impound fees                                   | 40,000             | 49,300            | 49,320            | 20  | 65,010            |
| Landlord's alert fee                                  | -                  | -                 | 40                | 40  | 315               |
| Fire protection-state property                        | 42,000             | 45,400            | 45,423            | 23  | 45,965            |
| Zoning fees   | 13,000             | 18,600            | 18,680            | 80  | 11,880            |
| Clerk fees  | 4,035              | 3,100             | 3,162             | 62  | 2,022             |
| Clerk fees - passport fees                            | 2,500              | 2,500             | 2,550             | 50  | 1,735             |
| Tax abatement application fees                        | 6,000              | 13,600            | 13,636            | 36  | 16,020            |
| Treasurer fees  | 33,000             | 45,900            | 45,909            | 9   | 20,702            |
| False alarm fees                                      | 20,000             | 12,400            | 12,425            | 25  | 11,429            |
| Miscellaneous cemetery income                         | 24,000             | 24,700            | 24,722            | 22  | 21,763            |
| Senior transit program fees                           | 8,000              | 6,800             | 6,864             | 64  | 6,651             |
| Fire miscellaneous                                    | 5,000              | 18,100            | 18,183            | 83  | 11,410            |
| Township electrical services                          | -                  | 13,600            | 13,608            | 8   | 13,297            |
| Sanitation stickers                                   | 55,000             | 62,700            | 62,704            | 4   | 49,856            |
| Lot cleanup fees                                      | 70,000             | 40,600            | 40,633            | 33  | 91,709            |
| Reimbursements - lot mowing and demolitions           | 70,000             | 36,800            | 36,820            | 20  | 158,315           |
| Special events reimbursements                         | -                  | 101,800           | 101,822           | 22  | 30,610            |
| Recreation program fees                               | 125,101            | 105,800           | 105,895           | 95  | 116,174           |
| <b>Total charges for services</b>                     | <b>2,055,783</b>   | <b>2,137,800</b>  | <b>2,138,678</b>  | <b>878</b>  | <b>2,240,866</b>  |

City of Muskegon  
General Fund

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED**

Year Ended December 31, 2004  
(With Comparative Actual Amounts for Year Ended December 31, 2003)

|  | 2004               |                   |            | Variance - With<br>Amended Budget<br>Positive<br>(Negative) | 2003       |
|--|--------------------|-------------------|------------|---|------------|
|  | Original<br>Budget | Amended<br>Budget | Actual     |   | Actual     |
| Revenues (continued)                       |                    |                   |            |   |            |
| Interest and rental income                 |                    |                   |            |   |            |
| Interest                                   | \$ 70,000          | \$ 17,200         | \$ 17,275  | \$ 75   | \$ 48,583  |
| Flea market                                | 28,000             | 31,900            | 31,998     | 98  | 31,867     |
| Farmers' market                            | 28,000             | 25,800            | 25,829     | 29  | 29,880     |
| City right of way rental                   | 4,400              | 4,400             | 4,400      | -   | 4,400      |
| Parking rentals                            | 5,000              | 3,200             | 3,245      | 45  | 6,017      |
| McGraft park rentals                       | 46,288             | 49,100            | 49,181     | 81  | 41,338     |
| Other park rentals                         | 28,365             | 28,800            | 28,838     | 38  | 27,400     |
| Total interest and rental income           | 210,053            | 160,400           | 160,766    | 366   | 189,485    |
| Fines and fees                             |                    |                   |            |   |            |
| Income tax - penalty and interest          | 150,000            | 293,900           | 293,971    | 71  | 194,562    |
| Late fees on current taxes                 | 25,000             | 89,400            | 89,452     | 52  | 52,791     |
| Interest on late invoices                  | 750                | 800               | 877        | 77  | 549        |
| Parking fines                              | 100,000            | 100,400           | 100,425    | 25  | 71,698     |
| Court fines                                | 160,000            | 137,400           | 137,440    | 40  | 152,082    |
| Total fines and fees                       | 435,750            | 621,900           | 622,165    | 265   | 471,682    |
| Other                                      |                    |                   |            |   |            |
| Sale of land and assets                    | 1,000              | -                 | -          | -   | -          |
| Police sale and auction proceeds           | 4,000              | 1,500             | 1,577      | 77  | 1,139      |
| CDBG program reimbursements                | 267,000            | 291,900           | 291,983    | 83  | 234,079    |
| Contributions                              | 11,000             | 18,000            | 18,030     | 30  | 35,461     |
| Contributions - Veteran's Park Maintenance | 17,250             | 20,400            | 20,449     | 49  | -          |
| Community Foundation for Muskegon County   | 7,000              | 8,000             | 8,000      | -   | 33,000     |
| Miscellaneous reimbursements               | 1,000              | -                 | -          | -   | 14,232     |
| Miscellaneous and sundry                   | 15,000             | 21,200            | 21,249     | 49  | 13,284     |
| Total other                                | 323,250            | 361,000           | 361,288    | 288   | 331,195    |
| Total revenues                             | 22,659,860         | 23,075,000        | 23,100,584 | 25,584  | 22,762,474 |
| Expenditures                               |                    |                   |            |   |            |
| Current                                    |                    |                   |            |   |            |
| Public representation services             |                    |                   |            |   |            |
| City commission                            | 103,078            | 85,000            | 83,235     | 1,765   | 103,449    |
| City promotions and public relations       | 25,102             | 12,000            | 10,476     | 1,524   | 30,552     |
| City manager                               | 208,094            | 202,000           | 199,208    | 2,792   | 188,327    |
| Contributions to outside agencies          | 151,500            | 150,000           | 147,294    | 2,706   | 182,259    |
| City attorney                              | 390,121            | 430,000           | 429,129    | 871   | 384,601    |
| Total public representation services       | 877,895            | 879,000           | 869,342    | 9,658   | 889,188    |
| Administrative services                    |                    |                   |            |   |            |
| Administration                             | 167,992            | 153,000           | 150,458    | 2,542   | 145,710    |
| City clerk                                 | 303,985            | 314,000           | 311,589    | 2,411   | 319,921    |
| Civil service                              | 169,863            | 166,000           | 162,874    | 3,126   | 214,794    |
| Julia Hackley internships                  | 7,736              | 9,000             | 8,931      | 69  | 7,837      |
| Affirmative action                         | 84,054             | 73,000            | 70,815     | 2,185   | 97,704     |
| Total administrative services              | 733,630            | 715,000           | 704,667    | 10,333  | 785,966    |
| Financial services                         |                    |                   |            |   |            |
| Finance administration                     | 406,781            | 401,000           | 397,245    | 3,755   | 396,077    |
| Assessing                                  | 406,537            | 408,000           | 406,895    | 1,105   | 400,986    |
| Income tax administration                  | 314,924            | 316,000           | 313,096    | 2,904   | 298,172    |
| Information systems                        | 376,110            | 340,000           | 336,909    | 3,091   | 357,749    |
| City treasurer                             | 357,173            | 378,000           | 375,131    | 2,869   | 393,574    |
| Total financial services                   | 1,861,525          | 1,843,000         | 1,829,276  | 13,724  | 1,846,558  |
| Public safety                              |                    |                   |            |   |            |
| Police department                          | 7,957,780          | 7,674,000         | 7,672,617  | 1,383   | 7,123,529  |
| Fire department                            | 3,439,678          | 3,603,000         | 3,601,008  | 1,992   | 3,366,426  |
| Fire safety inspections                    | 1,064,634          | 1,001,000         | 999,056    | 1,944   | 947,561    |
| Total public safety                        | 12,462,092         | 12,278,000        | 12,272,681 | 5,319   | 11,437,516 |

City of Muskegon  
General Fund

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED**

Year Ended December 31, 2004  
(With Comparative Actual Amounts for Year Ended December 31, 2003)

|   | 2004               |                   |              | Variance - With<br>Amended Budget<br>Positive<br>(Negative) | 2003         |
|---|--------------------|-------------------|--------------|---|--------------|
|   | Original<br>Budget | Amended<br>Budget | Actual       |   | Actual       |
| Expenditures (continued)                          |                    |                   |              |   |              |
| Current (continued)                               |                    |                   |              |   |              |
| Public works                                      |                    |                   |              |   |              |
| Streetlighting                                    | \$ 515,000         | \$ 507,000        | \$ 506,589   | \$ 411  | \$ 509,524   |
| Community event support                           | 15,429             | 43,000            | 41,921       | 1,079   | 55,104       |
| Senior citizen transit                            | 61,108             | 51,000            | 49,204       | 1,796   | 48,886       |
| General sanitation                                | 1,520,135          | 1,531,000         | 1,529,206    | 1,794   | 1,608,639    |
| Recycling   | 140,179            | 160,000           | 159,996      | 4   | 233,308      |
| Stormwater management                             | 15,429             | 14,000            | 12,191       | 1,809   | 6,905        |
| City hall maintenance                             | 265,345            | 252,000           | 244,405      | 7,595   | 268,875      |
| Total public works                                | 2,532,625          | 2,558,000         | 2,543,512    | 14,488  | 2,731,241    |
| Leisure services                                  |                    |                   |              |   |              |
| Parks maintenance                                 | 1,230,148          | 1,201,000         | 1,198,518    | 2,482   | 1,290,790    |
| McGraft park maintenance                          | 46,288             | 64,000            | 60,489       | 3,511   | 44,940       |
| General and inner city recreation programs        | 393,703            | 354,000           | 350,878      | 3,122   | 464,791      |
| Cemeteries maintenance                            | 479,299            | 485,000           | 482,300      | 2,700   | 510,780      |
| Forestry  | 88,781             | 89,000            | 87,519       | 1,481   | 136,674      |
| Graffiti removal                                  | -                  | 6,000             | 4,601        | 1,399   | -            |
| Parking operations                                | 23,144             | 29,000            | 27,342       | 1,658   | 130,356      |
| Farmers' market and flea market                   | 40,117             | 49,000            | 48,052       | 948   | 45,944       |
| Total leisure services                            | 2,301,480          | 2,277,000         | 2,259,699    | 17,301  | 2,624,275    |
| Planning and economic development                 |                    |                   |              |   |              |
| Planning, zoning and economic development         | 489,898            | 403,000           | 400,017      | 2,983   | 512,686      |
| Environmental services                            | 406,692            | 399,000           | 397,055      | 1,945   | 474,411      |
| Total planning and economic development           | 896,590            | 802,000           | 797,072      | 4,928   | 987,097      |
| Other governmental functions                      |                    |                   |              |   |              |
| Insurance premiums                                | 379,061            | 323,000           | 322,233      | 767   | 335,805      |
| Other   | 400,000            | 430,000           | 404,953      | 25,047  | 324,125      |
| Total other governmental functions                | 779,061            | 753,000           | 727,186      | 25,814  | 659,930      |
| Capital outlay                                    |                    |                   |              |   |              |
| Major capital improvements                        | -                  | 12,000            | 11,373       | 627   | 285,310      |
| Debt service                                      |                    |                   |              |   |              |
| Principal   | 205,000            | 205,000           | 205,000      | -   | 195,000      |
| Interest  | 11,816             | 12,000            | 11,884       | 116   | 22,397       |
| Total debt service                                | 216,816            | 217,000           | 216,884      | 116   | 217,397      |
| Total expenditures                                | 22,661,714         | 22,334,000        | 22,231,692   | 102,308   | 22,464,478   |
| Excess (deficiency) of revenues over expenditures | (1,854)            | 741,000           | 868,892      | 127,892   | 297,996      |
| Other financing sources (uses)                    |                    |                   |              |   |              |
| Transfers in                                      | 585,000            | 300,100           | 301,209      | 1,109   | 566,282      |
| Transfers out                                     | (970,000)          | (1,157,000)       | (1,156,328)  | 672   | (1,240,856)  |
| Total other financing sources (uses)              | (385,000)          | (856,900)         | (855,119)    | 1,781   | (674,574)    |
| Net change in fund balances                       | (386,854)          | (115,900)         | 13,773       | 129,673   | (376,578)    |
| Fund balances at beginning of year                | 2,431,418          | 2,431,418         | 2,431,418    | -   | 2,807,996    |
| Fund balances at end of year                      | \$ 2,044,564       | \$ 2,315,518      | \$ 2,445,191 | \$ 129,673  | \$ 2,431,418 |

City of Muskegon  
Major Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended December 31, 2004

|   | Major Street and Trunkline Fund |                |            |  | Local Street Fund |                |            |  |
|---|---------------------------------|----------------|------------|--|-------------------|----------------|------------|--|
|   | Original Budget                 | Amended Budget | Actual     | Variance-With Amended Budget Positive (Negative) | Original Budget   | Amended Budget | Actual     | Variance-With Amended Budget Positive (Negative) |
| Revenues  |                                 |                |            |  |                   |                |            |  |
| Special assessments                               | \$ 250,000                      | \$ 275,000     | \$ 296,857 | \$ 21,857  | \$ 125,000        | \$ 85,600      | \$ 85,557  | \$ (43)  |
| Federal grants                                    | 841,660                         | 640,200        | 779,854    | 139,654  | -                 | -              | -          | -  |
| State grants                                      | 6,000,000                       | 3,000,000      | 3,012,583  | 12,583   | -                 | 138,000        | 138,050    | 50   |
| State shared revenues                             | 2,870,326                       | 2,650,000      | 2,760,477  | 110,477  | 693,934           | 699,000        | 699,026    | 26   |
| Charges for services                              | 300,000                         | 300,000        | 300,143    | 143  | 270,000           | 264,000        | 263,998    | (2)  |
| Interest income                                   | 50,000                          | 75,000         | 154,196    | 79,196   | -                 | 24,100         | 24,065     | (35)   |
| Other   | -                               | 1,600          | 1,597      | (3)  | 1,000             | 600            | 618        | 18   |
| Total revenues                                    | 10,311,986                      | 6,941,800      | 7,305,707  | 363,907  | 1,089,934         | 1,211,300      | 1,211,314  | 14   |
| Expenditures                                      |                                 |                |            |  |                   |                |            |  |
| Current   |                                 |                |            |  |                   |                |            |  |
| Highway, streets and bridges                      | 9,621,478                       | 6,722,674      | 6,812,050  | (89,376)   | 2,022,769         | 1,850,000      | 1,842,881  | 7,119  |
| Debt service                                      | 555,000                         | 555,000        | 555,000    | -  | -                 | -              | -          | -  |
| Principal   | 82,326                          | 82,326         | 82,325     | 1  | -                 | -              | -          | -  |
| Interest  | 10,258,804                      | 7,360,000      | 7,449,375  | (89,375)   | 2,022,769         | 1,850,000      | 1,842,881  | 7,119  |
| Total expenditures                                | 53,182                          | (418,200)      | (143,668)  | 274,532  | (932,835)         | (638,700)      | (631,567)  | 7,133  |
| Excess (deficiency) of revenues over expenditures | (300,000)                       | (300,000)      | (303,275)  | (3,275)  | 950,000           | 920,000        | 920,000    | (39,446)   |
| Other financing sources (uses)                    | (300,000)                       | (300,000)      | (303,275)  | (3,275)  | 950,000           | 920,000        | 880,554    | (39,446)   |
| Transfers in                                      | (246,818)                       | (718,200)      | (446,943)  | 271,257  | 17,165            | 281,300        | 248,987    | (32,313)   |
| Transfers out                                     | 1,413,108                       | 1,413,108      | 1,413,108  | -  | 145,641           | 145,641        | 145,641    | -  |
| Total other financing sources (uses)              | 1,413,108                       | 1,413,108      | 1,413,108  | -  | 145,641           | 145,641        | (129,500)  | (129,500)  |
| Net change in fund balances                       | \$ 1,166,290                    | \$ 694,908     | \$ 966,165 | \$ 271,257                                       | \$ 162,806        | \$ 426,941     | \$ 265,128 | \$ (161,813)                                     |
| Fund balances at beginning of year                | -                               | -              | -          | -  | -                 | -              | -          | -  |
| Prior period adjustment                           | -                               | -              | -          | -  | -                 | -              | -          | -  |
| As restated                                       | -                               | -              | -          | -  | -                 | -              | -          | -  |
| Fund balances at end of year                      | -                               | -              | -          | -  | -                 | -              | -          | -  |

City of Muskegon  
REQUIRED SUPPLEMENTARY INFORMATION FOR PENSION PLANS - GASB 25  
December 31, 2004

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

**Schedule of Funding Progress**

| Actuarial<br>Valuation Date<br>December 31, | Actuarial<br>Valuation of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>Entry Age<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|---|--|---|---------------------------------|--------------------------|---------------------------|---|
|---|--|---|---------------------------------|--------------------------|---------------------------|---|

General Employees Retirement System

|      |              |              |               |        |             |      |
|------|--------------|--------------|---------------|--------|-------------|------|
| 1998 | \$25,503,969 | \$20,235,071 | (\$5,268,898) | 126.0% | \$5,937,337 | -    |
| 1999 | 26,388,008   | 22,230,860   | (4,157,148)   | 118.7% | 6,119,765   | -    |
| 2000 | 27,339,523   | 23,036,525   | (4,302,998)   | 118.7% | 6,270,574   | -    |
| 2001 | 27,797,306   | 24,566,385   | (3,230,921)   | 113.2% | 6,296,642   | -    |
| 2002 | 26,881,785   | 25,872,132   | (1,009,653)   | 103.9% | 6,545,937   | -    |
| 2003 | 27,131,973   | 27,401,129   | 269,056       | 99.0%  | 6,780,771   | 4.0% |

Policemen and Firemen Retirement System

|      |              |              |               |        |             |       |
|------|--------------|--------------|---------------|--------|-------------|-------|
| 1998 | \$38,016,174 | \$31,981,726 | (\$6,034,448) | 118.9% | \$5,452,784 | -     |
| 1999 | 39,642,868   | 34,735,474   | (4,907,394)   | 114.1% | 6,245,973   | -     |
| 2000 | 40,598,831   | 37,547,042   | (3,051,789)   | 108.1% | 6,417,659   | -     |
| 2001 | 40,380,489   | 38,591,701   | (1,788,788)   | 104.6% | 6,069,551   | -     |
| 2002 | 38,279,705   | 41,511,057   | 3,231,352     | 92.2%  | 6,391,031   | 50.6% |
| 2003 | 38,085,240   | 42,980,872   | 4,895,632     | 88.6%  | 6,655,984   | 73.6% |

**Schedule of Employer Contributions**

| Fiscal Year<br>Ended<br>December 31, | Contribution Rates as<br>Percentage of<br>Valuation Payroll | Annual Required<br>Contribution | Actual<br>Annual<br>Contribution | Percentage Contributed |
|--------------------------------------|---|---------------------------------|----------------------------------|------------------------|
|--------------------------------------|---|---------------------------------|----------------------------------|------------------------|

General Employees Retirement System

|      |       |          |          |         |
|------|-------|----------|----------|---------|
| 1998 | 0.75% | \$45,654 | \$45,654 | 100.00% |
| 1999 | 0.00% | -        | 11       | -       |
| 2000 | 0.80% | 50,987   | 50,987   | 100.00% |
| 2001 | 0.00% | -        | -        | -       |
| 2002 | 0.00% | -        | -        | -       |
| 2003 | 1.75% | 121,414  | 121,414  | 100.00% |

Policemen and Firemen Retirement System

|      |       |           |           |         |
|------|-------|-----------|-----------|---------|
| 1998 | 4.03% | \$221,893 | \$221,893 | 100.00% |
| 1999 | 2.35% | 130,385   | 130,385   | 100.00% |
| 2000 | 1.54% | 98,491    | 98,491    | 100.00% |
| 2001 | 1.47% | 96,549    | 96,549    | 100.00% |
| 2002 | 4.30% | 290,431   | 290,431   | 100.00% |
| 2003 | 6.29% | 435,687   | 435,687   | 100.00% |



**SUPPLEMENTAL FINANCIAL INFORMATION**

## **Non-Major Governmental Funds**

### **Special Revenue Funds**

The special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

Budget Stabilization - to account for funds appropriated from the City's general fund for the purpose of mitigating adverse affects on the City's budget from downturns in the business cycle.

Criminal Forfeitures - to account for receipts generated through the sale of assets seized through criminal court proceedings.

Land Reutilization - to account for proceeds received from the sale of tax reverted properties and costs associated with improving and marketing these properties.

Tree Replacement - to account for contributions and other revenues earmarked for tree replacement throughout the City.

Enterprise Community - to account for federal grant revenues received under the Title XX Enterprise Communities program.

L.C. Walker Arena - to account for revenues received for the operation and maintenance of the L.C. Walker Arena.

### **Debt Service Funds**

Debt service funds are used to record the funding and payment of principal and interest on general long-term debt.

Special Assessment Debt Service - to account for the accumulation of resources and the payment of principal and interest on the Special Assessment Improvement Bonds of 1998.

### **Capital Projects Funds**

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Sidewalk Replacement - to account for resources allocated for a multi-year citywide sidewalk replacement program.

Michcon Remediation - to account for reimbursements received from Michcon Gas Company for environmental remediation of their former downtown site.

Public Improvement – to account for grants, private contributions, sale of property and other financial resources used to finance various capital projects.

Community Development Block Grant - to account for categorical grants received from the U. S. Department of Housing and Urban Development for the construction of major city public improvements and the rehabilitation of residential housing and other qualifying expenditures.

State Grants – to account for grant revenues received from the State of Michigan and earmarked for the purpose of improvements and/or rehabilitation of City property, environmental remediation at lakeshore sites or new infrastructure in the City's downtown.

Lakeshore Trails – to account for funds received for the purpose of construction the Lakeshore Trails.

HOME Rehabilitation – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of providing housing assistance to low and moderate income households in the City.

EDC Revolving Loan – to account for funds received upon repayment of UDAG loans and subsequently reloaned to small business enterprises.

EC Mirco Loan – to account for grant funds received through the Federal Enterprise Community program for purposes of making small loans to startup business enterprises and to account for repayment of those loans.

### **Permanent Funds**

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Perpetual Care – to account for charges for services collected and investment income earned and to account for transfers to the general fund to partially cover cemetery perpetual care expenses.

**City of Muskegon  
Non-Major Governmental Funds**

**COMBINING BALANCE SHEET**

December 31, 2004

|  | Special<br>Revenue Funds | Debt Service<br>Fund - Special<br>Assessment<br>Debt Service | Capital<br>Projects<br>Funds | Permanent<br>Fund -Cemetery<br>Perpetual Care | Total Non-Major<br>Governmental<br>Funds |
|--|--------------------------|--|------------------------------|---|--|
| <b>ASSETS</b>                              |                          |  |                              |   |  |
| Cash and cash equivalents                  | \$ 212,150               | \$ -   | \$ 1,844,964                 | \$ -  | \$ 2,057,114                             |
| Investments                                | -                        | -  | -                            | 1,200,238                                     | 1,200,238                                |
| Receivables                                |                          |  |                              |   |  |
| Accounts and loans                         | 74,494                   | -  | 773,492                      | 11,667  | 859,653                                  |
| Special assessment                         | -                        | -  | 1,128,895                    | -   | 1,128,895                                |
| Due from other funds                       | 1,250,000                | -  | -                            | -   | 1,250,000                                |
| Due from other governmental units          | 4,281                    | -  | 862,585                      | -   | 866,866                                  |
| Prepaid items                              | 2,193                    | -  | -                            | -   | 2,193                                    |
| <b>TOTAL ASSETS</b>                        | <b>\$ 1,543,118</b>      | <b>\$ -</b>  | <b>\$ 4,609,936</b>          | <b>\$ 1,211,905</b>                           | <b>\$ 7,364,959</b>                      |
| <b>LIABILITIES AND FUND BALANCES</b>       |                          |  |                              |   |  |
| <b>Liabilities</b>                         |                          |  |                              |   |  |
| Accounts payable                           | \$ 50,056                | \$ -   | \$ 39,022                    | \$ -  | \$ 89,078                                |
| Accrued payroll                            | -                        | -  | 6,995                        | -   | 6,995                                    |
| Due to other funds                         | 4,281                    | -  | 809,077                      | 28,990  | 842,348                                  |
| Deferred revenue                           | -                        | -  | 1,567,175                    | -   | 1,567,175                                |
| <b>Total liabilities</b>                   | <b>54,337</b>            | <b>-</b>   | <b>2,422,269</b>             | <b>28,990</b>                                 | <b>2,505,596</b>                         |
| <b>Fund balances</b>                       |                          |  |                              |   |  |
| Reserved for prepaid items                 | 2,193                    | -  | -                            | -   | 2,193                                    |
| Reserved for perpetual care                | -                        | -  | -                            | 1,160,019                                     | 1,160,019                                |
| Unreserved                                 |                          |  |                              |   |  |
| Designated for approved projects           | -                        | -  | 476,113                      | -   | 476,113                                  |
| Undesignated                               | 1,486,588                | -  | 1,711,554                    | 22,896  | 3,221,038                                |
| <b>Total fund balances</b>                 | <b>1,488,781</b>         | <b>-</b>   | <b>2,187,667</b>             | <b>1,182,915</b>                              | <b>4,859,363</b>                         |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 1,543,118</b>      | <b>\$ -</b>  | <b>\$ 4,609,936</b>          | <b>\$ 1,211,905</b>                           | <b>\$ 7,364,959</b>                      |

**City of Muskegon  
Non-Major Governmental Funds**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

|   | Special<br>Revenue Funds | Debt Service<br>Fund - Special<br>Assessment<br>Debt Service | Capital Projects<br>Funds | Permanent<br>Fund -<br>Cemetery<br>Perpetual Care | Total Non-Major<br>Governmental<br>Funds |
|---|--------------------------|--|---------------------------|---|--|
| Revenues  |                          |  |                           |   |  |
| Special assessments                               | \$ -                     | \$ -   | \$ 321,050                | \$ -  | \$ 321,050                               |
| Federal grants                                    | 4,000                    | -  | 2,127,723                 | -   | 2,131,723                                |
| State grants                                      | -                        | -  | 1,015,519                 | -   | 1,015,519                                |
| Charges for services                              | 711,164                  | -  | -                         | 23,237  | 734,401                                  |
| Interest income                                   | 3,715                    | 2,364  | 87,541                    | 2,505   | 96,125                                   |
| Other   |                          |  |                           |   |  |
| Contributions                                     | 56,000                   | -  | 332,991                   | -   | 388,991                                  |
| Miscellaneous                                     | 28,633                   | -  | 147,301                   | -   | 175,934                                  |
| Total revenues                                    | 803,512                  | 2,364  | 4,032,125                 | 25,742  | 4,863,743                                |
| Expenditures                                      |                          |  |                           |   |  |
| Current   |                          |  |                           |   |  |
| Public safety                                     | 4,996                    | -  | -                         | -   | 4,996                                    |
| Other governmental functions                      | 981,682                  | -  | -                         | -   | 981,682                                  |
| Capital outlay                                    | 248,295                  | -  | 5,879,929                 | -   | 6,128,224                                |
| Debt services                                     |                          |  |                           |   |  |
| Principal   | -                        | 56,282   | 518,718                   | -   | 575,000                                  |
| Interest  | -                        | 21,378   | 85,860                    | -   | 107,238                                  |
| Total expenditures                                | 1,234,973                | 77,660   | 6,484,507                 | -   | 7,797,140                                |
| Excess (deficiency) of revenues over expenditures | (431,461)                | (75,296)   | (2,452,382)               | 25,742  | (2,933,397)                              |
| Other financing sources (uses)                    |                          |  |                           |   |  |
| Transfers in                                      | 451,663                  | -  | 1,669,740                 | -   | 2,121,403                                |
| Sale of property                                  | -                        | -  | 483,544                   | -   | 483,544                                  |
| Transfers out                                     | (250,000)                | (77,810)   | (1,363,103)               | (43,407)  | (1,734,320)                              |
| Total other financing sources (uses)              | 201,663                  | (77,810)   | 790,181                   | (43,407)  | 870,627                                  |
| Net change in fund balances                       | (229,798)                | (153,106)  | (1,662,201)               | (17,665)  | (2,062,770)                              |
| Fund balances at beginning of year                | 1,718,579                | 153,106  | 3,849,868                 | 1,200,580   | 6,922,133                                |
| Fund balances at end of year                      | \$ 1,488,781             | \$ -   | \$ 2,187,667              | \$ 1,182,915                                      | \$ 4,859,363                             |

City of Muskegon  
Non-Major Special Revenue Funds

**COMBINING BALANCE SHEET**

December 31, 2004

|  | Budget<br>Stabilization | Criminal<br>Forfeitures | Land<br>Reutilization | Tree<br>Replacement | Enterprise<br>Community | L.C. Walker<br>Arena | Total<br>Non-Major<br>Special Revenue<br>Funds |
|--|-------------------------|-------------------------|-----------------------|---------------------|-------------------------|----------------------|--|
| <b>ASSETS</b>                              |                         |                         |                       |                     |                         |                      |  |
| Cash and cash equivalents                  | \$ -                    | \$ 164,705              | \$ 23,875             | \$ 12,293           | \$ -                    | \$ 11,277            | \$ 212,150                                     |
| Accounts receivable                        | -                       | -                       | -                     | -                   | -                       | 74,494               | 74,494   |
| Due from other funds                       | 1,250,000               | -                       | -                     | -                   | -                       | -                    | 1,250,000                                      |
| Due from other governmental units          | -                       | -                       | -                     | -                   | 4,281                   | -                    | 4,281  |
| Prepaid items                              | -                       | -                       | -                     | -                   | -                       | 2,193                | 2,193  |
| <b>TOTAL ASSETS</b>                        | <b>\$ 1,250,000</b>     | <b>\$ 164,705</b>       | <b>\$ 23,875</b>      | <b>\$ 12,293</b>    | <b>\$ 4,281</b>         | <b>\$ 87,964</b>     | <b>\$ 1,543,118</b>                            |
| <b>LIABILITIES AND FUND BALANCES</b>       |                         |                         |                       |                     |                         |                      |  |
| <b>Liabilities</b>                         |                         |                         |                       |                     |                         |                      |  |
| Accounts payable                           | \$ -                    | \$ 407                  | \$ -                  | \$ -                | \$ -                    | \$ 49,649            | \$ 50,056                                      |
| Due to other funds                         | -                       | -                       | -                     | -                   | 4,281                   | -                    | 4,281  |
| <b>Total liabilities</b>                   | <b>-</b>                | <b>407</b>              | <b>-</b>              | <b>-</b>            | <b>4,281</b>            | <b>49,649</b>        | <b>54,337</b>                                  |
| <b>Fund balances</b>                       |                         |                         |                       |                     |                         |                      |  |
| Reserved for prepaid items                 | -                       | -                       | -                     | -                   | -                       | 2,193                | 2,193  |
| Unreserved                                 | 1,250,000               | 164,298                 | 23,875                | 12,293              | -                       | 36,122               | 1,486,588                                      |
| <b>Total fund balances</b>                 | <b>1,250,000</b>        | <b>164,298</b>          | <b>23,875</b>         | <b>12,293</b>       | <b>-</b>                | <b>38,315</b>        | <b>1,488,781</b>                               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 1,250,000</b>     | <b>\$ 164,705</b>       | <b>\$ 23,875</b>      | <b>\$ 12,293</b>    | <b>\$ 4,281</b>         | <b>\$ 87,964</b>     | <b>\$ 1,543,118</b>                            |

City of Muskegon  
Non-Major Special Revenue Funds

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

|   | Budget<br>Stabilization | Criminal<br>Forfeitures | Land<br>Reutilization | Tree<br>Replacement | Enterprise<br>Community | L.C.<br>Walker<br>Arena | Total<br>Non-Major<br>Special Revenue<br>Funds |
|---|-------------------------|-------------------------|-----------------------|---------------------|-------------------------|-------------------------|--|
| Revenues  |                         |                         |                       |                     |                         |                         |  |
| Federal grants                                    | \$ -                    | \$ -                    | \$ -                  | \$ 4,000            | \$ -                    | \$ -                    | \$ 4,000                                       |
| Charges for services                              | -                       | -                       | -                     | 100                 | -                       | 711,064                 | 711,164  |
| Interest income                                   | -                       | 1,784                   | 299                   | 139                 | -                       | 1,493                   | 3,715  |
| Other   | -                       | -                       | -                     | -                   | -                       | -                       | -  |
| Contributions                                     | -                       | -                       | -                     | -                   | -                       | 56,000                  | 56,000   |
| Miscellaneous                                     | -                       | 22,530                  | -                     | -                   | -                       | 6,103                   | 28,633   |
| Total revenues                                    | -                       | 24,314                  | 299                   | 4,239               | -                       | 774,660                 | 803,512  |
| Expenditures                                      |                         |                         |                       |                     |                         |                         |  |
| Current   |                         |                         |                       |                     |                         |                         |  |
| Public safety                                     | -                       | 4,996                   | -                     | -                   | -                       | -                       | 4,996  |
| Other governmental functions                      | -                       | -                       | -                     | 4,380               | -                       | 977,302                 | 981,682  |
| Capital outlay                                    | -                       | -                       | -                     | -                   | -                       | 248,295                 | 248,295  |
| Total expenditures                                | -                       | 4,996                   | -                     | 4,380               | -                       | 1,225,597               | 1,234,973                                      |
| Excess (deficiency) of revenues over expenditures | -                       | 19,318                  | 299                   | (141)               | -                       | (450,937)               | (431,461)                                      |
| Other financing sources (uses)                    |                         |                         |                       |                     |                         |                         |  |
| Transfers in                                      | -                       | -                       | -                     | -                   | -                       | -                       | -  |
| Transfers out                                     | (250,000)               | -                       | -                     | -                   | -                       | 451,663                 | 451,663  |
| Total other financing sources (uses)              | (250,000)               | -                       | -                     | -                   | -                       | -                       | (250,000)                                      |
| Net change in fund balances                       | (250,000)               | 19,318                  | 299                   | (141)               | -                       | 726                     | (229,798)                                      |
| Fund balances at beginning of year                | 1,500,000               | 144,980                 | 23,576                | 12,434              | -                       | 37,589                  | 1,718,579                                      |
| Fund balances at end of year                      | \$ 1,250,000            | \$ 164,298              | \$ 23,875             | \$ 12,293           | \$ -                    | \$ 38,315               | \$ 1,488,781                                   |

City of Muskegon  
Non-Major Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended December 31, 2004

|   | Budget Stabilization Fund |              |                                     | Criminal Forfeitures Fund |            |                                     | Land Reutilization |           |                                     |
|---|---------------------------|--------------|-------------------------------------|---------------------------|------------|-------------------------------------|--------------------|-----------|-------------------------------------|
|   | Amended<br>Budget         | Actual       | Variance-<br>Positive<br>(Negative) | Amended<br>Budget         | Actual     | Variance-<br>Positive<br>(Negative) | Amended<br>Budget  | Actual    | Variance-<br>Positive<br>(Negative) |
| Revenues  |                           |              |                                     |                           |            |                                     |                    |           |                                     |
| Federal grants                                    | \$ -                      | \$ -         | \$ -                                | \$ -                      | \$ -       | \$ -                                | \$ -               | \$ -      | \$ -                                |
| Charges for services                              | -                         | -            | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Interest income                                   | -                         | -            | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Other   | -                         | -            | -                                   | 1,775                     | 1,784      | 9                                   | 200                | 299       | 99                                  |
| Contributions                                     | -                         | -            | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Miscellaneous                                     | -                         | -            | -                                   | 22,525                    | 22,530     | 5                                   | -                  | -         | -                                   |
| Total revenues                                    | -                         | -            | -                                   | 24,300                    | 24,314     | 14                                  | 200                | 299       | 99                                  |
| Expenditures                                      |                           |              |                                     |                           |            |                                     |                    |           |                                     |
| Current   |                           |              |                                     |                           |            |                                     |                    |           |                                     |
| Public safety                                     | -                         | -            | -                                   | 5,000                     | 4,996      | 4                                   | -                  | -         | -                                   |
| Other governmental functions                      | -                         | -            | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Capital outlay                                    | -                         | -            | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Total expenditures                                | -                         | -            | -                                   | 5,000                     | 4,996      | 4                                   | -                  | -         | -                                   |
| Excess (deficiency) of revenues over expenditures | -                         | -            | -                                   | 19,300                    | 19,318     | 18                                  | 200                | 299       | 99                                  |
| Other financing sources (uses)                    |                           |              |                                     |                           |            |                                     |                    |           |                                     |
| Transfers in                                      | -                         | -            | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Transfers out                                     | (250,000)                 | (250,000)    | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Total other financing sources (uses)              | (250,000)                 | (250,000)    | -                                   | -                         | -          | -                                   | -                  | -         | -                                   |
| Net change in fund balances                       | (250,000)                 | (250,000)    | -                                   | 19,300                    | 19,318     | 18                                  | 200                | 299       | 99                                  |
| Fund balances at beginning of year                | 1,500,000                 | 1,500,000    | -                                   | 144,980                   | 144,980    | -                                   | 23,576             | 23,576    | -                                   |
| Fund balances at end of year                      | \$ 1,250,000              | \$ 1,250,000 | \$ -                                | \$ 164,280                | \$ 164,298 | \$ 18                               | \$ 23,776          | \$ 23,875 | \$ 99                               |



City of Muskegon  
Non-Major Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended December 31, 2004

|   | Tree Replacement Fund |           |                                     | Enterprise Community Fund |        |                                     | L. C. Walker Arena Fund |           |                                     |
|---|-----------------------|-----------|-------------------------------------|---------------------------|--------|-------------------------------------|-------------------------|-----------|-------------------------------------|
|   | Amended<br>Budget     | Actual    | Variance-<br>Positive<br>(Negative) | Amended<br>Budget         | Actual | Variance-<br>Positive<br>(Negative) | Amended<br>Budget       | Actual    | Variance-<br>Positive<br>(Negative) |
| Revenues  |                       |           |                                     |                           |        |                                     |                         |           |                                     |
| Federal grants                                    | \$ 4,000              | \$ 4,000  | \$ -                                | \$ -                      | \$ -   | \$ -                                | \$ -                    | \$ -      | \$ -                                |
| Charges for services                              | 100                   | 100       | -                                   | -                         | -      | -                                   | 713,000                 | 711,064   | (1,936)                             |
| Interest income                                   | 100                   | 139       | 39                                  | -                         | -      | -                                   | 2,300                   | 1,493     | (807)                               |
| Other   | -                     | -         | -                                   | -                         | -      | -                                   | -                       | -         | -                                   |
| Contributions                                     | -                     | -         | -                                   | -                         | -      | -                                   | 56,000                  | 56,000    | -                                   |
| Miscellaneous                                     | -                     | -         | -                                   | -                         | -      | -                                   | 6,000                   | 6,103     | 103                                 |
| Total revenues                                    | 4,200                 | 4,239     | 39                                  | -                         | -      | -                                   | 777,300                 | 774,660   | (2,640)                             |
| Expenditures                                      |                       |           |                                     |                           |        |                                     |                         |           |                                     |
| Current   |                       |           |                                     |                           |        |                                     |                         |           |                                     |
| Public safety                                     | -                     | -         | -                                   | -                         | -      | -                                   | -                       | -         | -                                   |
| Other governmental functions                      | 5,000                 | 4,380     | 620                                 | -                         | -      | -                                   | 980,000                 | 977,302   | 2,698                               |
| Capital outlay                                    | -                     | -         | -                                   | -                         | -      | -                                   | 250,000                 | 248,295   | 1,705                               |
| Total expenditures                                | 5,000                 | 4,380     | 620                                 | -                         | -      | -                                   | 1,230,000               | 1,225,597 | 4,403                               |
| Excess (deficiency) of revenues over expenditures | (800)                 | (141)     | 659                                 | -                         | -      | -                                   | (452,700)               | (450,937) | 1,763                               |
| Other financing sources (uses)                    |                       |           |                                     |                           |        |                                     |                         |           |                                     |
| Transfers in                                      | -                     | -         | -                                   | -                         | -      | -                                   | -                       | -         | -                                   |
| Transfers out                                     | -                     | -         | -                                   | -                         | -      | -                                   | 449,000                 | 451,663   | 2,663                               |
| Total other financing sources (uses)              | -                     | -         | -                                   | -                         | -      | -                                   | 449,000                 | 451,663   | 2,663                               |
| Net change in fund balances                       | (800)                 | (141)     | 659                                 | -                         | -      | -                                   | (3,700)                 | 726       | 4,426                               |
| Fund balances at beginning of year                | 12,434                | 12,434    | -                                   | -                         | -      | -                                   | 37,589                  | 37,589    | -                                   |
| Fund balances at end of year                      | \$ 11,634             | \$ 12,293 | \$ 659                              | \$ -                      | \$ -   | \$ -                                | \$ 33,889               | \$ 38,315 | \$ 4,426                            |

City of Muskegon  
Non-Major Capital Projects Funds

COMBINING BALANCE SHEET

December 31, 2004

|   | Sidewalk<br>Replacement | Michcon<br>Remediation | Public<br>Improvement | Community<br>Development<br>Block Grant | State<br>Grants   | Lakeshore<br>Trail | HOME<br>Rehabilitation | EDC<br>Revolving<br>Loan | EC Micro<br>Loan | Total<br>Non-Major<br>Capital Projects<br>Funds |
|---|-------------------------|------------------------|-----------------------|---|-------------------|--------------------|------------------------|--------------------------|------------------|---|
| <b>ASSETS</b>                                     |                         |                        |                       |   |                   |                    |                        |                          |                  |   |
| Cash and cash equivalents                         | \$ 829,090              | \$ 189,126             | \$ 797,984            | \$ -                                    | \$ -              | \$ -               | \$ -                   | \$ 28,764                | \$ -             | \$ 1,844,964                                    |
| Receivables (net of allowance for uncollectibles) | -                       | -                      | -                     | -                                       | -                 | -                  | -                      | -                        | -                | -   |
| Accounts and loans                                | -                       | -                      | 130,900               | 612,014                                 | 12,480            | -                  | -                      | 14,482                   | 3,616            | 773,492   |
| Special assessments                               | 1,128,895               | -                      | -                     | -                                       | -                 | -                  | -                      | -                        | -                | 1,128,895                                       |
| Due from other governmental units                 | -                       | -                      | -                     | 222,476                                 | 295,351           | -                  | 329,145                | -                        | 15,613           | 862,585   |
| <b>TOTAL ASSETS</b>                               | <b>\$ 1,957,985</b>     | <b>\$ 189,126</b>      | <b>\$ 928,884</b>     | <b>\$ 834,490</b>                       | <b>\$ 307,831</b> | <b>\$ -</b>        | <b>\$ 329,145</b>      | <b>\$ 43,246</b>         | <b>\$ 19,229</b> | <b>\$ 4,609,936</b>                             |
| <b>LIABILITIES AND FUND BALANCES</b>              |                         |                        |                       |   |                   |                    |                        |                          |                  |   |
| <b>Liabilities</b>                                |                         |                        |                       |   |                   |                    |                        |                          |                  |   |
| Accounts payable                                  | \$ 400                  | \$ -                   | \$ 1,263              | \$ 19,355                               | \$ 15,914         | \$ -               | \$ 2,090               | \$ -                     | \$ -             | \$ 39,022                                       |
| Accrued payroll                                   | -                       | -                      | -                     | 5,645                                   | -                 | -                  | 1,350                  | -                        | -                | 6,995   |
| Due to other funds                                | -                       | -                      | -                     | 478,104                                 | 290,310           | -                  | 32,940                 | -                        | 7,723            | 809,077   |
| Deferred revenue                                  | 933,282                 | -                      | 1,000                 | 331,386                                 | -                 | -                  | 292,765                | -                        | 8,742            | 1,567,175                                       |
| <b>Total liabilities</b>                          | <b>933,682</b>          | <b>-</b>               | <b>2,263</b>          | <b>834,490</b>                          | <b>306,224</b>    | <b>-</b>           | <b>329,145</b>         | <b>-</b>                 | <b>16,465</b>    | <b>2,422,269</b>                                |
| <b>Fund balances</b>                              |                         |                        |                       |   |                   |                    |                        |                          |                  |   |
| Unreserved  | -                       | -                      | -                     | -                                       | -                 | -                  | -                      | -                        | -                | -   |
| Designated for approved projects                  | -                       | -                      | 476,113               | -                                       | -                 | -                  | -                      | -                        | -                | 476,113   |
| Undesignated                                      | 1,024,303               | 189,126                | 450,508               | -                                       | 1,607             | -                  | -                      | 43,246                   | 2,764            | 1,711,554                                       |
| <b>Total fund balances</b>                        | <b>1,024,303</b>        | <b>189,126</b>         | <b>926,621</b>        | <b>-</b>                                | <b>1,607</b>      | <b>-</b>           | <b>-</b>               | <b>43,246</b>            | <b>2,764</b>     | <b>2,187,667</b>                                |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>        | <b>\$ 1,957,985</b>     | <b>\$ 189,126</b>      | <b>\$ 928,884</b>     | <b>\$ 834,490</b>                       | <b>\$ 307,831</b> | <b>\$ -</b>        | <b>\$ 329,145</b>      | <b>\$ 43,246</b>         | <b>\$ 19,229</b> | <b>\$ 4,609,936</b>                             |

City of Muskegon  
Non-Major Capital Projects Funds

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

|   | Sidewalk<br>Replacement | Michcon<br>Remediation | Public<br>Improvement | Community<br>Development<br>Block Grant | State<br>Grants | Lakeshore<br>Trail | HOME<br>Rehabilitation | EDC<br>Revolving<br>Loan | EC Micro<br>Loan | Total<br>Non-Major<br>Capital Projects<br>Funds |
|---|-------------------------|------------------------|-----------------------|---|-----------------|--------------------|------------------------|--------------------------|------------------|---|
| Revenues  |                         |                        |                       |   |                 |                    |                        |                          |                  |   |
| Special assessments                               | \$ 321,050              | \$ -                   | \$ -                  | \$ -                                    | \$ -            | \$ -               | \$ -                   | \$ -                     | \$ -             | \$ 321,050                                      |
| Federal grants                                    | -                       | -                      | -                     | 1,255,440                               | 262,848         | -                  | 587,523                | -                        | 21,912           | 2,127,723                                       |
| State grants                                      | -                       | -                      | -                     | -                                       | 1,015,519       | -                  | -                      | -                        | -                | 1,015,519                                       |
| Interest income                                   | 60,546                  | 2,373                  | 10,499                | 2,106                                   | -               | 4,710              | -                      | 7,264                    | 43               | 87,541  |
| Other   | -                       | -                      | -                     | -                                       | -               | -                  | -                      | -                        | -                | -   |
| Contributions                                     | -                       | -                      | 303,011               | -                                       | 29,980          | -                  | -                      | -                        | -                | 332,991   |
| Miscellaneous                                     | -                       | -                      | 44,012                | 67,584                                  | -               | -                  | -                      | -                        | -                | 147,301   |
| Total revenues                                    | 381,596                 | 2,373                  | 357,522               | 1,325,130                               | 1,308,347       | 4,710              | 587,523                | 42,969                   | 21,955           | 4,032,125                                       |
| Expenditures                                      |                         |                        |                       |   |                 |                    |                        |                          |                  |   |
| Capital outlay                                    |                         |                        |                       |   |                 |                    |                        |                          |                  |   |
| Personnel services                                | -                       | -                      | -                     | 279,169                                 | -               | -                  | 54,247                 | -                        | -                | 333,416   |
| Operating supplies                                | -                       | -                      | -                     | 198,475                                 | -               | -                  | -                      | -                        | -                | 198,475   |
| Contractual services and other                    | 174,119                 | 390                    | 1,890,535             | 893,851                                 | 1,656,686       | -                  | 710,013                | 474                      | 21,970           | 5,348,038                                       |
| Debt service                                      |                         |                        |                       |   |                 |                    |                        |                          |                  |   |
| Principal   | 368,718                 | -                      | 150,000               | -                                       | -               | -                  | -                      | -                        | -                | 518,718   |
| Interest  | 85,860                  | -                      | -                     | -                                       | -               | -                  | -                      | -                        | -                | 85,860  |
| Total expenditures                                | 628,697                 | 390                    | 2,040,535             | 1,371,495                               | 1,656,686       | -                  | 764,260                | 474                      | 21,970           | 6,484,507                                       |
| Excess (deficiency) of revenues over expenditures | (247,101)               | 1,983                  | (1,683,013)           | (46,365)                                | (348,339)       | 4,710              | (176,737)              | 42,495                   | (15)             | (2,452,382)                                     |
| Other financing sources (uses)                    |                         |                        |                       |   |                 |                    |                        |                          |                  |   |
| Transfers in                                      | 238,511                 | -                      | 1,080,000             | -                                       | 351,229         | -                  | -                      | -                        | -                | 1,669,740                                       |
| Sale of property                                  | -                       | -                      | 260,442               | 46,365                                  | -               | -                  | -                      | -                        | -                | 483,544   |
| Transfers out                                     | -                       | -                      | (139,240)             | -                                       | (2,802)         | (286,061)          | 176,737                | (935,000)                | -                | (1,363,103)                                     |
| Total other financing sources (uses)              | 238,511                 | -                      | 1,201,202             | 46,365                                  | 348,427         | (286,061)          | 176,737                | (935,000)                | -                | 790,181   |
| Net change in fund balances                       | (8,590)                 | 1,983                  | (481,811)             | -                                       | 88              | (281,351)          | -                      | (892,505)                | (15)             | (1,662,201)                                     |
| Fund balances at beginning of year                | 1,032,893               | 187,143                | 1,408,432             | -                                       | 1,519           | 281,351            | -                      | 935,751                  | 2,779            | 3,849,868                                       |
| Fund balances at end of year                      | \$ 1,024,303            | \$ 189,126             | \$ 926,621            | \$ -                                    | \$ 1,607        | \$ -               | \$ -                   | \$ 43,246                | \$ 2,764         | \$ 2,187,667                                    |

## DESCRIPTION OF INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of a governmental unit or to other governments on a cost-reimbursement basis.

A list and description of internal service funds maintained by the City follows:

Engineering Services - to account for salary, benefit and other costs related to the provision of internal engineering services for City projects; to account for charges to the user funds and projects to cover those expenses.

Equipment - to account for the purchase, operation, maintenance and depreciation of all City-owned vehicles and equipment; to account for charges to the user funds and departments to cover those expenses.

General Insurance - to account for the payment of claims and benefits, excess liability premiums and operating expenses; to account for charges to other funds and departments to cover the expenses.

Public Service Building - to account for the operation, maintenance and depreciation of the City's Public Service Building; to account for charges to the user funds and departments to cover these expenses.

**City of Muskegon  
Internal Service Funds**

**COMBINING STATEMENT OF FUND NET ASSETS**

**December 31, 2004**

|  | <b>Engineering<br/>Services</b> | <b>Equipment</b>    | <b>General<br/>Insurance</b> | <b>Public<br/>Service<br/>Building</b> | <b>Total<br/>Internal Service<br/>Funds</b> |
|--|---------------------------------|---------------------|------------------------------|--|---|
| <b>ASSETS</b>  |                                 |                     |                              |  |   |
| Current assets   |                                 |                     |                              |  |   |
| Cash and cash equivalents  | \$ 74,410                       | \$ 586,818          | \$ 654,597                   | \$ 80,971                              | \$ 1,396,796                                |
| Accounts receivable  | 2,653                           | 23                  | 307,307                      | -                                      | 309,983                                     |
| Due from other funds   | -                               | 909,725             | -                            | -                                      | 909,725                                     |
| Inventories  | -                               | 18,270              | -                            | -                                      | 18,270                                      |
| Prepaid items  | 1,153                           | 25,881              | 142,712                      | 1,434                                  | 171,180                                     |
| Total current assets   | <u>78,216</u>                   | <u>1,540,717</u>    | <u>1,104,616</u>             | <u>82,405</u>                          | <u>2,805,954</u>                            |
| Noncurrent assets  |                                 |                     |                              |  |   |
| Land, construction in progress and other<br>assets not being depreciated | -                               | -                   | -                            | 65,000                                 | 65,000                                      |
| Other capital assets, net of depreciation                                | 332                             | 1,837,709           | -                            | 953,805                                | 2,791,846                                   |
| Total noncurrent assets  | <u>332</u>                      | <u>1,837,709</u>    | <u>-</u>                     | <u>1,018,805</u>                       | <u>2,856,846</u>                            |
| <b>TOTAL ASSETS</b>  | <u>\$ 78,548</u>                | <u>\$ 3,378,426</u> | <u>\$ 1,104,616</u>          | <u>\$ 1,101,210</u>                    | <u>\$ 5,662,800</u>                         |
| <b>Investment income</b>   |                                 |                     |                              |  |   |
| Current liabilities  |                                 |                     |                              |  |   |
| Accounts payable   | \$ 798                          | \$ 114,657          | \$ 203,456                   | \$ 20,068                              | \$ 338,979                                  |
| Accrued payroll  | 9,129                           | 13,345              | 836                          | 6,718                                  | 30,028                                      |
| Compensated absences payable   | 27,983                          | 52,259              | 2,286                        | 23,420                                 | 105,948                                     |
| Total current liabilities  | <u>37,910</u>                   | <u>180,261</u>      | <u>206,578</u>               | <u>50,206</u>                          | <u>474,955</u>                              |
| Net assets   |                                 |                     |                              |  |   |
| Invested in capital assets   | 332                             | 1,837,709           | -                            | 1,018,805                              | 2,856,846                                   |
| Unrestricted   | 40,306                          | 1,360,456           | 898,038                      | 32,199                                 | 2,330,999                                   |
| Total net assets   | <u>40,638</u>                   | <u>3,198,165</u>    | <u>898,038</u>               | <u>1,051,004</u>                       | <u>5,187,845</u>                            |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                                  | <u>\$ 78,548</u>                | <u>\$ 3,378,426</u> | <u>\$ 1,104,616</u>          | <u>\$ 1,101,210</u>                    | <u>\$ 5,662,800</u>                         |

City of Muskegon  
Internal Service Funds

**COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**

Year Ended December 31, 2004

|                                       | Engineering<br>Services | Equipment    | General<br>Insurance | Public<br>Service<br>Building | Total<br>Internal Service<br>Funds |
|---------------------------------------|-------------------------|--------------|----------------------|-------------------------------|------------------------------------|
| Operating revenues                    |                         |              |                      |                               |                                    |
| Charges to other funds                | \$ 487,233              | \$ 2,393,337 | \$ 2,565,881         | \$ 569,872                    | \$ 6,016,323                       |
| Other revenues                        | 25,332                  | 41,740       | 137,914              | 177                           | 205,163                            |
| Total operating revenues              | 512,565                 | 2,435,077    | 2,703,795            | 570,049                       | 6,221,486                          |
| Operating expenses                    |                         |              |                      |                               |                                    |
| Operating and administrative          | 520,501                 | 1,475,674    | 30,330               | 509,918                       | 2,536,423                          |
| Insurance premiums and claims         | -                       | -            | 3,576,019            | -                             | 3,576,019                          |
| Depreciation and amortization         | 1,434                   | 514,520      | -                    | 70,280                        | 586,234                            |
| Total operating expenses              | 521,935                 | 1,990,194    | 3,606,349            | 580,198                       | 6,698,676                          |
| Operating income (loss)               | (9,370)                 | 444,883      | (902,554)            | (10,149)                      | (477,190)                          |
| Nonoperating revenues (expenses)      |                         |              |                      |                               |                                    |
| Investment income                     | 1,018                   | 13,379       | 9,240                | 991                           | 24,628                             |
| Gain (loss) on sale of capital assets | -                       | (4,906)      | -                    | -                             | (4,906)                            |
| Investment income                     | 1,018                   | 8,473        | 9,240                | 991                           | 19,722                             |
| Income (loss) before transfers        | (8,352)                 | 453,356      | (893,314)            | (9,158)                       | (457,468)                          |
| Transfers                             |                         |              |                      |                               |                                    |
| Transfers in                          | -                       | -            | 1,240,959            | -                             | 1,240,959                          |
| Transfers out                         | -                       | -            | (251,663)            | -                             | (251,663)                          |
| Total transfers                       | -                       | -            | 989,296              | -                             | 989,296                            |
| Change in net assets                  | (8,352)                 | 453,356      | 95,982               | (9,158)                       | 531,828                            |
| Net assets at beginning of year       | 48,990                  | 2,744,809    | 802,056              | 1,060,162                     | 4,656,017                          |
| Net assets at end of year             | \$ 40,638               | \$ 3,198,165 | \$ 898,038           | \$ 1,051,004                  | \$ 5,187,845                       |

City of Muskegon  
Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

|  | Engineering<br>Services | Equipment    | General<br>Insurance | Public Service<br>Building | Total Internal<br>Service Funds |
|--|-------------------------|--------------|----------------------|----------------------------|---------------------------------|
| Cash flows from operating activities   |                         |              |                      |                            |                                 |
| Receipts from customers  | \$ 26,148               | \$ 45,234    | \$ 137,914           | \$ 177                     | \$ 209,473                      |
| Receipts for internal services provided  | 487,233                 | 2,393,337    | 2,565,881            | 569,872                    | 6,016,323                       |
| Payments to suppliers  | (134,325)               | (806,915)    | (3,919,140)          | (272,029)                  | (5,132,409)                     |
| Payments to employees  | (315,958)               | (383,079)    | (26,503)             | (188,664)                  | (914,204)                       |
| Payments to internal service funds   | (76,575)                | (234,803)    | (4,968)              | (43,208)                   | (359,554)                       |
| Net cash provided by (used for) operating activities   | (13,477)                | 1,013,774    | (1,246,816)          | 66,148                     | (180,371)                       |
| Cash flows from noncapital financing activities  |                         |              |                      |                            |                                 |
| Interfund borrowing  | -                       | (909,725)    | -                    | -                          | (909,725)                       |
| Transfers in   | -                       | -            | 1,240,959            | -                          | 1,240,959                       |
| Transfers out  | -                       | -            | (251,663)            | -                          | (251,663)                       |
| Net cash provided by (used for) noncapital financing activities  | -                       | (909,725)    | 989,296              | -                          | 79,571                          |
| Cash flows from capital and related financing activities   |                         |              |                      |                            |                                 |
| Acquisition and construction of capital assets   | -                       | (467,482)    | -                    | (110,432)                  | (577,914)                       |
| Cash flows from investing activities   |                         |              |                      |                            |                                 |
| Investment income  | 1,018                   | 13,379       | 9,240                | 991                        | 24,628                          |
| Net decrease in cash and cash equivalents  | (12,459)                | (350,054)    | (248,280)            | (43,293)                   | (654,086)                       |
| Cash and cash equivalents at beginning of year   | 86,869                  | 936,872      | 902,877              | 124,264                    | 2,050,882                       |
| Cash and cash equivalents at end of year   | \$ 74,410               | \$ 586,818   | \$ 654,597           | \$ 80,971                  | \$ 1,396,796                    |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities        |                         |              |                      |                            |                                 |
| Operating income (loss)  | \$ (9,370)              | \$ 444,883   | \$ (902,554)         | \$ (10,149)                | \$ (477,190)                    |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities |                         |              |                      |                            |                                 |
| Depreciation and amortization  | 1,434                   | 514,520      | -                    | 70,280                     | 586,234                         |
| (Increase) decrease in   |                         |              |                      |                            |                                 |
| Accounts receivable  | 816                     | 3,494        | (187,060)            | -                          | (182,750)                       |
| Inventories  | -                       | (7,866)      | -                    | -                          | (7,866)                         |
| Prepaid items  | 38                      | (752)        | (142,712)            | 77                         | (143,349)                       |
| Increase (decrease) in   |                         |              |                      |                            |                                 |
| Accounts payable   | (6,466)                 | 44,631       | (15,019)             | 2,905                      | 26,051                          |
| Accrued payroll  | 1,997                   | 2,673        | 165                  | 1,571                      | 6,406                           |
| Compensated absences payable   | (1,926)                 | 12,191       | 364                  | 1,464                      | 12,093                          |
| Net cash provided by (used for) operating activities   | \$ (13,477)             | \$ 1,013,774 | \$ (1,246,816)       | \$ 66,148                  | \$ (180,371)                    |

## DESCRIPTION OF FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments or other funds.

A list and description of the fiduciary funds maintained by the City follows:

**PENSION TRUST FUNDS** are used to account for public employee retirement systems.

General Employees Retirement System - to account for the funding of retirement for the general employees of the City by all funds and departments, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Policemen and Firemen Retirement System - to account for the funding of public safety employees' retirement by the general fund, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Retiree Healthcare - to account for the funding of retirement healthcare benefits for employees and retirees of the city in accordance with the provisions of P.A. 149 of 1999.

**AGENCY FUNDS** are used to account for assets held as an agent for another organization or individual.

Collector - to account for the collections and disbursement of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

Current Tax - to account for levy, collection and payment of taxes levied for the general and other funds of the City, county and public school districts.

Rehab Loan Escrow - to account for deposits made by housing rehabilitation program participants and their expenditures for the intended purposes.



City of Muskegon  
Pension Trust Funds

**COMBINING STATEMENT OF PLAN NET ASSETS**

December 31, 2004

|   | <u>General Employees Retirement System</u> |                     |                      | <u>Policemen and Firemen Retirement System</u> |                     |                      | <u>Retiree</u>      | <u>Total</u>               |
|---|--|---------------------|----------------------|--|---------------------|----------------------|---------------------|----------------------------|
|   | <u>Pension</u>                             | <u>Healthcare</u>   | <u>Total</u>         | <u>Pension</u>                                 | <u>Healthcare</u>   | <u>Total</u>         | <u>Healthcare</u>   | <u>Pension Trust Funds</u> |
| <u>ASSETS</u>                           |  |                     |                      |  |                     |                      |                     |                            |
| Cash and cash equivalents               | \$ 530,763                                 | \$ -                | \$ 530,763           | \$ 521,335                                     | \$ -                | \$ 521,335           | \$ 110,055          | \$ 1,162,153               |
| Investments                             | 31,894,975                                 | 3,548,924           | 35,443,899           | 44,985,710                                     | 1,712,270           | 46,697,980           | 4,823,006           | 86,964,885                 |
| <b>TOTAL ASSETS</b>                     | <b>\$ 32,425,738</b>                       | <b>\$ 3,548,924</b> | <b>\$ 35,974,662</b> | <b>\$ 45,507,045</b>                           | <b>\$ 1,712,270</b> | <b>\$ 47,219,315</b> | <b>\$ 4,933,061</b> | <b>\$ 88,127,038</b>       |
| <u>LIABILITIES AND NET ASSETS</u>       |  |                     |                      |  |                     |                      |                     |                            |
| <u>Liabilities</u>                      |  |                     |                      |  |                     |                      |                     |                            |
| Accounts payable                        | \$ 51                                      | \$ -                | \$ 51                | \$ 225   | \$ -                | \$ 225               | \$ -                | \$ 276                     |
| <u>Net assets</u>                       |  |                     |                      |  |                     |                      |                     |                            |
| Held in trust for benefits              | 32,425,687                                 | 3,548,924           | 35,974,611           | 45,506,820                                     | 1,712,270           | 47,219,090           | 4,933,061           | 88,126,762                 |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ 32,425,738</b>                       | <b>\$ 3,548,924</b> | <b>\$ 35,974,662</b> | <b>\$ 45,507,045</b>                           | <b>\$ 1,712,270</b> | <b>\$ 47,219,315</b> | <b>\$ 4,933,061</b> | <b>\$ 88,127,038</b>       |

City of Muskegon  
Pension Trust Funds

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2004

|  | General Employees Retirement System |              |               | Policemen and Firemen Retirement System |              |               | Retiree<br>Healthcare | Total<br>Pension Trust<br>Funds |
|--|-------------------------------------|--------------|---------------|---|--------------|---------------|-----------------------|---------------------------------|
|  | Pension                             | Healthcare   | Total         | Pension                                 | Healthcare   | Total         |                       |                                 |
| Additions                                    |                                     |              |               |   |              |               |                       |                                 |
| Contributions                                |                                     |              |               |   |              |               |                       |                                 |
| Member                                       | \$ 320,651                          | \$ -         | \$ 320,651    | \$ 396,373                              | \$ -         | \$ 396,373    | \$ -                  | \$ 717,024                      |
| City   | 382,193                             | -            | 382,193       | 1,035,172                               | -            | 1,035,172     | 967,300               | 2,384,665                       |
| Total contributions                          | 702,844                             | -            | 702,844       | 1,431,545                               | -            | 1,431,545     | 967,300               | 3,101,689                       |
| Net investment income                        |                                     |              |               |   |              |               |                       |                                 |
| Interest and dividends                       | 6,528                               | -            | 6,528         | 5,511                                   | -            | 5,511         | 885                   | 12,924                          |
| Net increase in fair<br>value of investments | 3,102,449                           | 308,989      | 3,411,438     | 4,481,445                               | 154,362      | 4,635,807     | 404,985               | 8,452,230                       |
| Total additions                              | 3,811,821                           | 308,989      | 4,120,810     | 5,918,501                               | 154,362      | 6,072,863     | 1,373,170             | 11,566,843                      |
| Deductions                                   |                                     |              |               |   |              |               |                       |                                 |
| Benefit payments                             | 1,457,022                           | -            | 1,457,022     | 3,033,521                               | -            | 3,033,521     | -                     | 4,490,543                       |
| Refunds of contributions                     | 148,919                             | -            | 148,919       | 129,763                                 | -            | 129,763       | -                     | 278,682                         |
| Administrative expenses                      | 99,687                              | -            | 99,687        | 127,100                                 | -            | 127,100       | 2,787                 | 229,574                         |
| Transfers out                                | -                                   | 564,944      | 564,944       | -                                       | 676,015      | 676,015       | -                     | 1,240,959                       |
| Total deductions                             | 1,705,628                           | 564,944      | 2,270,572     | 3,290,384                               | 676,015      | 3,966,399     | 2,787                 | 6,239,758                       |
| Intrafund transfers in (out)                 | (212,814)                           | 212,814      | -             | (99,611)                                | 99,611       | -             | -                     | -                               |
| Change in net assets                         | 1,893,379                           | (43,141)     | 1,850,238     | 2,528,506                               | (422,042)    | 2,106,464     | 1,370,383             | 5,327,085                       |
| Net assets at beginning of year              | 30,532,308                          | 3,592,065    | 34,124,373    | 42,978,314                              | 2,134,312    | 45,112,626    | 3,562,678             | 82,799,677                      |
| Net assets at end of year                    | \$ 32,425,687                       | \$ 3,548,924 | \$ 35,974,611 | \$ 45,506,820                           | \$ 1,712,270 | \$ 47,219,090 | \$ 4,933,061          | \$ 88,126,762                   |

**City of Muskegon  
Agency Funds**

**COMBINING BALANCE SHEET**

**December 31, 2004**

|                                 | <b>Collector</b>  | <b>Current<br/>Tax</b> | <b>Rehab Loan<br/>Escrow</b> | <b>Total<br/>Agency<br/>Funds</b> |
|---------------------------------|-------------------|------------------------|------------------------------|-----------------------------------|
| <b><u>ASSETS</u></b>            |                   |                        |                              |                                   |
| Cash and cash equivalents       | \$ 787,182        | \$ 5,003,661           | \$ -                         | \$ 5,790,843                      |
| Receivables                     |                   |                        |                              |                                   |
| Accounts                        | 900               | -                      | 4,586                        | 5,486                             |
| Property taxes                  | -                 | 18,997,331             | -                            | 18,997,331                        |
| <b>TOTAL ASSETS</b>             | <b>\$ 788,082</b> | <b>\$ 24,000,992</b>   | <b>\$ 4,586</b>              | <b>\$ 24,793,660</b>              |
| <b><u>LIABILITIES</u></b>       |                   |                        |                              |                                   |
| Accounts payable                | \$ 11,222         | \$ -                   | \$ -                         | \$ 11,222                         |
| Due to other funds              | -                 | 1,321,441              | 4,586                        | 1,326,027                         |
| Due to other governmental units | 434               | 22,672,047             | -                            | 22,672,481                        |
| Other liabilities               | 776,426           | 7,504                  | -                            | 783,930                           |
| <b>TOTAL LIABILITIES</b>        | <b>\$ 788,082</b> | <b>\$ 24,000,992</b>   | <b>\$ 4,586</b>              | <b>\$ 24,793,660</b>              |

City of Muskegon  
Agency Funds

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

Year Ended December 31, 2004

|                                   | Balance<br>January 1,<br>2004 | Additions            | Deductions           | Balance<br>December 31,<br>2004 |
|-----------------------------------|-------------------------------|----------------------|----------------------|---------------------------------|
| <b><u>COLLECTOR FUND</u></b>      |                               |                      |                      |                                 |
| <b>ASSETS</b>                     |                               |                      |                      |                                 |
| Cash and cash equivalents         | \$ 626,786                    | \$ 12,566,145        | \$ 12,405,749        | \$ 787,182                      |
| Accounts receivable               | -                             | 45,452               | 44,552               | 900                             |
| Due from other governmental units | -                             | 151,264              | 151,264              | -                               |
| <b>TOTAL ASSETS</b>               | <b>\$ 626,786</b>             | <b>\$ 12,762,861</b> | <b>\$ 12,601,565</b> | <b>\$ 788,082</b>               |
| <b>LIABILITIES</b>                |                               |                      |                      |                                 |
| Accounts payable                  | \$ 2,170                      | \$ 5,254,968         | \$ 5,245,916         | \$ 11,222                       |
| Due to other governmental units   | 55,432                        | -                    | 54,998               | 434                             |
| Other liabilities                 | 569,184                       | 5,746,391            | 5,539,149            | 776,426                         |
| <b>TOTAL LIABILITIES</b>          | <b>\$ 626,786</b>             | <b>\$ 11,001,359</b> | <b>\$ 10,840,063</b> | <b>\$ 788,082</b>               |
| <b><u>CURRENT TAX FUND</u></b>    |                               |                      |                      |                                 |
| <b>ASSETS</b>                     |                               |                      |                      |                                 |
| Cash and cash equivalents         | \$ 3,424,359                  | \$ 30,667,114        | \$ 29,087,812        | \$ 5,003,661                    |
| Property taxes receivable         | 19,401,411                    | 22,675,429           | 23,079,509           | 18,997,331                      |
| <b>TOTAL ASSETS</b>               | <b>\$ 22,825,770</b>          | <b>\$ 53,342,543</b> | <b>\$ 52,167,321</b> | <b>\$ 24,000,992</b>            |
| <b>LIABILITIES</b>                |                               |                      |                      |                                 |
| Due to other funds                | \$ 1,036,348                  | \$ 6,983,486         | \$ 6,698,393         | \$ 1,321,441                    |
| Due to component units            | -                             | 519,575              | 519,575              | -                               |
| Due to other governmental units   | 21,782,052                    | 22,675,429           | 21,785,434           | 22,672,047                      |
| Other liabilities                 | 7,370                         | 84,544               | 84,410               | 7,504                           |
| <b>TOTAL LIABILITIES</b>          | <b>\$ 22,825,770</b>          | <b>\$ 30,263,034</b> | <b>\$ 29,087,812</b> | <b>\$ 24,000,992</b>            |
| <b><u>REHAB LOAN ESCROW</u></b>   |                               |                      |                      |                                 |
| <b>ASSETS</b>                     |                               |                      |                      |                                 |
| Cash and cash equivalents         | \$ -                          | \$ 10,746            | \$ 10,746            | \$ -                            |
| Accounts receivable               | 4,221                         | 18,939               | 18,574               | 4,586                           |
| <b>TOTAL ASSETS</b>               | <b>\$ 4,221</b>               | <b>\$ 29,685</b>     | <b>\$ 29,320</b>     | <b>\$ 4,586</b>                 |
| <b>LIABILITIES</b>                |                               |                      |                      |                                 |
| Accounts payable                  | \$ -                          | \$ 18,574            | \$ 18,574            | \$ -                            |
| Due to other funds                | 4,221                         | 11,111               | 10,746               | 4,586                           |
| <b>TOTAL LIABILITIES</b>          | <b>\$ 4,221</b>               | <b>\$ 29,685</b>     | <b>\$ 29,320</b>     | <b>\$ 4,586</b>                 |
| <b><u>ALL AGENCY FUNDS</u></b>    |                               |                      |                      |                                 |
| <b>ASSETS</b>                     |                               |                      |                      |                                 |
| Cash and cash equivalents         | \$ 4,051,145                  | \$ 43,244,005        | \$ 41,504,307        | \$ 5,790,843                    |
| Receivables                       |                               |                      |                      |                                 |
| Accounts                          | 4,221                         | 64,391               | 63,126               | 5,486                           |
| Property taxes                    | 19,401,411                    | 22,675,429           | 23,079,509           | 18,997,331                      |
| Due from other governmental units | -                             | 151,264              | 151,264              | -                               |
| <b>TOTAL ASSETS</b>               | <b>\$ 23,456,777</b>          | <b>\$ 66,135,089</b> | <b>\$ 64,798,206</b> | <b>\$ 24,793,660</b>            |
| <b>LIABILITIES</b>                |                               |                      |                      |                                 |
| Accounts payable                  | \$ 2,170                      | \$ 5,273,542         | \$ 5,264,490         | \$ 11,222                       |
| Due to other funds                | 1,040,569                     | 6,994,597            | 6,709,139            | 1,326,027                       |
| Due to component units            | -                             | 519,575              | 519,575              | -                               |
| Due to other governmental units   | 21,837,484                    | 22,675,429           | 21,840,432           | 22,672,481                      |
| Other liabilities                 | 576,554                       | 5,830,935            | 5,623,559            | 783,930                         |
| <b>TOTAL LIABILITIES</b>          | <b>\$ 23,456,777</b>          | <b>\$ 41,294,078</b> | <b>\$ 39,957,195</b> | <b>\$ 24,793,660</b>            |

## **DESCRIPTION OF DISCRETELY PRESENTED COMPONENT UNITS**

A list and description of the discretely presented component units maintained by the City are as follows:

Downtown Development Authority - to account for the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown.

Local Development Finance Authority – to account for the collection of tax increment revenues and the construction of public facilities. Three separate local development finance authority districts have been created:

Local Development Finance Authority I – to promote and facilitate economic growth in the Port City Industrial Park.

Local Development Finance Authority II – to promote and facilitate economic growth in the Medendorp Industrial Park.

Local Development Finance Authority III – to promote and facilitate economic growth in the SmartZone Hi-Tech Park.

Tax Increment Finance Authority - to account for the collection of tax increment revenues, the issuance and repayment of debt to promote and facilitate economic growth in a sub section of the downtown.

**City of Muskegon  
Discretely Presented Component Units**

**BALANCE SHEET**

**December 31, 2004**

|  | Local<br>Development<br>Finance<br>Authority I | Local<br>Development<br>Finance<br>Authority II | Local<br>Development<br>Finance<br>Authority III | Downtown<br>Development<br>Authority | Tax Increment<br>Finance<br>Authority | Discretely<br>Presented<br>Component<br>Units |
|--|--|---|--|--------------------------------------|---------------------------------------|---|
| <b>ASSETS</b>                              |  |   |  |                                      |                                       |   |
| Cash and cash equivalents                  | \$ 301   | \$ 21,795                                       | \$ 465,160                                       | \$ 435,306                           | \$ 3,141                              | \$ 925,703                                    |
| Property taxes receivable                  | -  | -   | 11,620   | 638,521                              | 59,706                                | 709,847                                       |
| <b>TOTAL ASSETS</b>                        | <b>\$ 301</b>                                  | <b>\$ 21,795</b>                                | <b>\$ 476,780</b>                                | <b>\$ 1,073,827</b>                  | <b>\$ 62,847</b>                      | <b>\$ 1,635,550</b>                           |
| <b>LIABILITIES AND FUND BALANCES</b>       |  |   |  |                                      |                                       |   |
| <b>Liabilities</b>                         |  |   |  |                                      |                                       |   |
| Deferred revenue                           | \$ -   | \$ -  | \$ 11,620  | \$ 638,521                           | \$ 59,706                             | \$ 709,847                                    |
| <b>Fund balances</b>                       |  |   |  |                                      |                                       |   |
| Unreserved                                 | 301  | 21,795  | 465,160  | 435,306                              | 3,141                                 | 925,703                                       |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 301</b>                                  | <b>\$ 21,795</b>                                | <b>\$ 476,780</b>                                | <b>\$ 1,073,827</b>                  | <b>\$ 62,847</b>                      | <b>\$ 1,635,550</b>                           |

**City of Muskegon  
Discretely Presented Component Units**

**RECONCILIATION OF TOTAL DISCRETELY PRESENTED COMPONENT UNIT FUND BALANCES  
TO NET ASSETS OF DISCRETELY PRESENTED COMPONENT UNIT ACTIVITIES**

**December 31, 2004**

|   |    |                  |                           |
|---|----|------------------|---------------------------|
| Total discretely presented component unit fund balances   |    | \$               | 925,703                   |
| Amounts reported for discretely presented component unit activities in the statement of net assets are different because:   |    |                  |                           |
| Capital assets used in discretely presented component unit activities are not financial resources and therefore are not reported as assets in the discretely presented component unit funds.  |    |                  |                           |
| Capital assets  | \$ | 4,198,258        |                           |
| Accumulated depreciation  |    | <u>(187,035)</u> | 4,011,223                 |
| Other assets used in discretely presented component unit activities are not financial resources and therefore are not reported in the discretely presented component unit funds.              |    |                  |                           |
| Bond issuance costs   |    |                  | 129,621                   |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the discretely presented component unit funds. |    |                  |                           |
| Bonds payable   |    | (9,215,000)      |                           |
| Bond discount   |    | 8,018            |                           |
| Accrued interest on the bonds   |    | <u>(48,400)</u>  | <u>(9,255,382)</u>        |
| Net assets of discretely presented component unit activities  |    | \$               | <u><u>(4,188,835)</u></u> |

**City of Muskegon**  
**Discretely Presented Component Units**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

|                                    | Local<br>Development<br>Finance<br>Authority I | Local<br>Development<br>Finance<br>Authority II | Local<br>Development<br>Finance<br>Authority III | Downtown<br>Development<br>Authority | Tax Increment<br>Finance<br>Authority | Total Discretely<br>Presented<br>Component Units |
|------------------------------------|--|---|--|--------------------------------------|---------------------------------------|--|
| Revenues                           |  |   |  |                                      |                                       |  |
| Property taxes                     | \$ -   | \$ -  | \$ 10,585  | \$ 686,302                           | \$ 57,959                             | \$ 754,846                                       |
| Interest                           | -  | 1,381   | 16,199   | 5,182                                | 333                                   | 23,095   |
| Total revenues                     | -  | 1,381   | 26,784   | 691,484                              | 58,292                                | 777,941  |
| Expenditures                       |  |   |  |                                      |                                       |  |
| Current                            |  |   |  |                                      |                                       |  |
| Economic development               | -  | 399   | -  | 115,084                              | 56,000                                | 171,483  |
| Debt services                      |  |   |  |                                      |                                       |  |
| Principal                          | -  | -   | -  | 180,000                              | -                                     | 180,000  |
| Interest and fiscal charges        | -  | -   | 205,498  | 160,743                              | -                                     | 366,241  |
| Total expenditures                 | -  | 399   | 205,498  | 455,827                              | 56,000                                | 717,724  |
| Net change in fund balances        | -  | 982   | (178,714)  | 235,657                              | 2,292                                 | 60,217   |
| Fund balances at beginning of year | 301  | 20,813  | 643,874  | 199,649                              | 849                                   | 865,486  |
| Fund balances at end of year       | \$ 301   | \$ 21,795                                       | \$ 465,160                                       | \$ 435,306                           | \$ 3,141                              | \$ 925,703                                       |



**City of Muskegon  
Discretely Presented Component Units**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OF DISCRETELY PRESENTED COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES**

**December 31, 2004**

Net change in fund balances - total discretely presented component  
unit funds

\$ 60,217

Amounts reported for discretely presented component unit activities  
in the statement of activities are different because:

Discretely presented component unit funds report capital outlays  
as expenditures. However, in the statement of activities, the cost of  
those assets is depreciated over their estimated useful lives.

Current year depreciation

(172,647)

The issuance of long-term debt provides current financial resources  
to discretely presented component unit funds, while the repayment  
of the principal of long-term debt consumes the current financial  
resources of discretely presented component unit funds.

Neither transaction, however, has any effect on net assets. Also,  
discretely presented component units report the effect of issuance  
costs, premiums, discounts and similar items when debt is first  
issued, whereas these amounts are deferred and amortized in the  
statement of activities.

Amortization of discount and issuance costs

Principal payments

(6,752)

180,000

173,248

Change in net assets of discretely presented component unit activities

\$ 60,818

**SCHEDULE OF INDEBTEDNESS**

## SCHEDULE OF INDEBTEDNESS

December 31, 2004

|   | Date<br>of Issue | Amount<br>of Issue | Interest<br>Rate | Date of<br>Maturity |                      |                      | Annual<br>Interest<br>Payable |
|---|------------------|--------------------|------------------|---------------------|----------------------|----------------------|-------------------------------|
|   |                  |                    |                  |                     | 2003                 | 2004                 |                               |
| <b>Business-Type Activities Bonds and Loans Payable:</b>                            |                  |                    |                  |                     |                      |                      |                               |
| Water supply system bonds<br>(\$14,796 unamortized discount)                        | 10/1/1993        | \$ 5,465,000       | 0.00%            | 05/01/05            | \$ -                 | \$ -                 | 40,500                        |
|   |                  |                    | 0.00%            | 05/01/06            | -                    | -                    | 40,500                        |
|   |                  |                    | 0.00%            | 05/01/07            | -                    | -                    | 40,500                        |
|   |                  |                    | 0.00%            | 05/01/08            | -                    | -                    | 40,500                        |
|   |                  |                    | 0.00%            | 05/01/09            | -                    | -                    | 40,500                        |
|   |                  |                    | 0.00%            | 05/01/10            | -                    | -                    | 40,500                        |
|   |                  |                    | 0.00%            | 05/01/11            | -                    | -                    | 40,500                        |
|   |                  |                    | 4.50%            | 05/01/12            | 450,000              | 450,000              | 30,375                        |
|   |                  |                    | 4.50%            | 05/01/13            | 450,000              | 450,000              | 10,121                        |
|   |                  |                    |                  |                     | 900,000              | 900,000              | 323,996                       |
|   |                  |                    |                  |                     |                      |                      |                               |
| Water supply system bonds<br>(\$68,920 unamortized discount)                        | 3/2/1999         | \$ 9,575,000       | 3.85%            | 05/01/04            | 420,000              | -                    | -                             |
|   |                  |                    | 3.95%            | 05/01/05            | 435,000              | 435,000              | 344,704                       |
|   |                  |                    | 4.05%            | 05/01/06            | 455,000              | 455,000              | 326,899                       |
|   |                  |                    | 4.05%            | 05/01/07            | 470,000              | 470,000              | 308,168                       |
|   |                  |                    | 4.05%            | 05/01/08            | 490,000              | 490,000              | 288,728                       |
|   |                  |                    | 4.10%            | 05/01/09            | 510,000              | 510,000              | 268,350                       |
|   |                  |                    | 4.20%            | 05/01/10            | 535,000              | 535,000              | 246,660                       |
|   |                  |                    | 4.30%            | 05/01/11            | 555,000              | 555,000              | 223,493                       |
|   |                  |                    | 4.35%            | 05/01/12            | 130,000              | 130,000              | 208,733                       |
|   |                  |                    | 4.40%            | 05/01/13            | 155,000              | 155,000              | 202,495                       |
|   |                  |                    | 4.50%            | 05/01/14            | 635,000              | 635,000              | 184,798                       |
|   |                  |                    | 4.55%            | 05/01/15            | 665,000              | 665,000              | 155,381                       |
|   |                  |                    | 4.60%            | 05/01/16            | 695,000              | 695,000              | 124,268                       |
|   |                  |                    | 4.65%            | 05/01/17            | 730,000              | 730,000              | 91,310                        |
|   |                  |                    | 4.75%            | 05/01/18            | 765,000              | 765,000              | 56,169                        |
|   |                  |                    | 4.75%            | 05/01/19            | 800,000              | 800,000              | 19,000                        |
|   |                  |                    |                  |                     | 8,445,000            | 8,025,000            | 3,049,156                     |
|   |                  |                    |                  |                     |                      |                      |                               |
| Drinking Water State Revolving Fund (DWSRF)   | 3/2/2004         | \$ 13,900,000      | 2.13%            | 10/01/05            | -                    | -                    | 180,280                       |
|   |                  |                    | 2.13%            | 10/01/06            | -                    | 565,000              | 178,279                       |
|   |                  |                    | 2.13%            | 10/01/07            | -                    | 575,000              | 166,237                       |
|   |                  |                    | 2.13%            | 10/01/08            | -                    | 590,000              | 153,965                       |
|   |                  |                    | 2.13%            | 10/01/09            | -                    | 600,000              | 141,393                       |
|   |                  |                    | 2.13%            | 10/01/10            | -                    | 615,000              | 128,589                       |
|   |                  |                    | 2.13%            | 10/01/11            | -                    | 630,000              | 115,468                       |
|   |                  |                    | 2.13%            | 10/01/12            | -                    | 640,000              | 102,045                       |
|   |                  |                    | 2.13%            | 10/01/13            | -                    | 655,000              | 88,391                        |
|   |                  |                    | 2.13%            | 10/01/14            | -                    | 670,000              | 74,420                        |
|   |                  |                    | 2.13%            | 10/01/15            | -                    | 685,000              | 60,129                        |
|   |                  |                    | 2.13%            | 10/01/16            | -                    | 695,000              | 45,537                        |
|   |                  |                    | 2.13%            | 10/01/17            | -                    | 710,000              | 30,715                        |
|   |                  |                    | 2.13%            | 10/01/18            | -                    | 725,000              | 15,575                        |
|   |                  |                    | 2.13%            | 10/01/19            | -                    | 128,766              | 2,280                         |
|   |                  |                    |                  |                     | -                    | 8,483,766            | 1,483,304                     |
|   |                  |                    |                  |                     |                      |                      |                               |
| Contractual obligation for<br>County wastewater debt retirement - refunding bonds * | 11/6/2002        | \$ 6,990,000       | 2.00%            | 07/01/04            | 122,705              | -                    | -                             |
|   |                  |                    | 2.25%            | 07/01/05            | 116,862              | 116,862              | 187,564                       |
|   |                  |                    | 5.00%            | 07/01/06            | 1,244,580            | 1,244,580            | 184,934                       |
|   |                  |                    | 5.00%            | 07/01/07            | 1,232,894            | 1,232,894            | 122,705                       |
|   |                  |                    | 5.00%            | 07/01/08            | 1,221,208            | 1,221,208            | 61,060                        |
|   |                  |                    |                  |                     | 3,938,249            | 3,815,544            | 556,263                       |
|   |                  |                    |                  |                     |                      |                      |                               |
| Contractual obligation for<br>County wastewater debt retirement *                   | 5/1/1996         | \$ 8,034,263       | 5.10%            | 07/01/04            | 984,562              | -                    | -                             |
|   |                  |                    | 5.70%            | 07/01/05            | 964,112              | 964,112              | 27,475                        |
|   |                  |                    |                  |                     | 1,948,674            | 964,112              | 27,475                        |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE</b>                       |                  |                    |                  |                     | <b>\$ 15,231,923</b> | <b>\$ 22,188,422</b> | <b>\$ 5,440,194</b>           |
|   |                  |                    |                  |                     |                      |                      |                               |
| <b>Governmental Activities Bonds and Loans Payable:</b>                             |                  |                    |                  |                     |                      |                      |                               |
| Building authority limited tax bonds<br>of 1996 (city hall renovations)             | 1/1/1996         | \$ 1,545,000       | 4.30%            | 12/01/04            | \$ 205,000           | \$ -                 | -                             |
|   |                  |                    |                  |                     | 205,000              | -                    | -                             |
|   |                  |                    |                  |                     |                      |                      |                               |
| Special assessment improvement bonds<br>of 1996 (sidewalks)                         | 1/1/1996         | \$ 1,155,000       | 4.30%            | 12/01/04            | 65,000               | -                    | -                             |
|   |                  |                    | 4.40%            | 12/01/05            | 25,000               | 25,000               | 1,100                         |
|   |                  |                    |                  |                     | 90,000               | 25,000               | 1,100                         |
|   |                  |                    |                  |                     |                      |                      |                               |
| Special assessment Improvement bonds<br>of 1998 (sidewalks)                         | 10/1/1998        | \$ 1,495,000       | 3.90%            | 04/01/04            | 165,000              | -                    | -                             |
|   |                  |                    | 3.95%            | 04/01/05            | 165,000              | 165,000              | 21,259                        |
|   |                  |                    | 4.00%            | 04/01/06            | 165,000              | 165,000              | 14,700                        |
|   |                  |                    | 4.00%            | 04/01/07            | 130,000              | 130,000              | 8,800                         |
|   |                  |                    | 4.00%            | 04/01/08            | 95,000               | 95,000               | 4,300                         |
|   |                  |                    | 4.00%            | 04/01/09            | 60,000               | 60,000               | 1,200                         |
|   |                  |                    |                  |                     | 780,000              | 615,000              | 50,259                        |

\* Note: 58.88% of this debt is guaranteed and paid by an industrial user.

## SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2004

|   | Date<br>of Issue | Amount<br>of Issue | Interest<br>Rate                              | Date of<br>Maturity |               |               | Annual<br>Interest<br>Payable |
|---|------------------|--------------------|---|---------------------|---------------|---------------|-------------------------------|
|   |                  |                    |   |                     | 2003          | 2004          |                               |
| Governmental Activities Bonds and Loans Payable--continued:                   |                  |                    |   |                     |               |               |                               |
| Special assessment improvement bonds<br>of 2000 (sidewalks)                   | 12/1/2000        | \$ 825,000         | 4.55%   | 04/01/04            | \$ 90,000     | \$ -          | \$ -                          |
|   |                  |                    | 4.60%   | 04/01/05            | 85,000        | 85,000        | 21,883                        |
|   |                  |                    | 4.65%   | 04/01/06            | 85,000        | 85,000        | 17,951                        |
|   |                  |                    | 4.70%   | 04/01/07            | 90,000        | 90,000        | 13,860                        |
|   |                  |                    | 4.80%   | 04/01/08            | 85,000        | 85,000        | 9,705                         |
|   |                  |                    | 4.90%   | 04/01/09            | 85,000        | 85,000        | 5,583                         |
|   |                  |                    | 5.00%   | 04/01/10            | 70,000        | 70,000        | 1,746                         |
|   |                  |                    |   |                     | 590,000       | 500,000       | 70,728                        |
| Capital improvement bonds<br>of 2003 (sidewalks)                              | 3/1/2003         | \$ 1,575,000       | 2.00%   | 06/01/04            | 105,000       | -             | -                             |
|   |                  |                    | 2.00%   | 06/01/05            | 105,000       | 105,000       | 47,624                        |
|   |                  |                    | 2.00%   | 06/01/06            | 105,000       | 105,000       | 45,524                        |
|   |                  |                    | 2.38%   | 06/01/07            | 110,000       | 110,000       | 43,168                        |
|   |                  |                    | 2.88%   | 06/01/08            | 110,000       | 110,000       | 40,280                        |
|   |                  |                    | 3.13%   | 06/01/09            | 115,000       | 115,000       | 36,902                        |
|   |                  |                    | 3.50%   | 06/01/10            | 120,000       | 120,000       | 33,005                        |
|   |                  |                    | 3.50%   | 06/01/11            | 120,000       | 120,000       | 28,805                        |
|   |                  |                    | 3.70%   | 06/01/12            | 125,000       | 125,000       | 24,393                        |
|   |                  |                    | 3.80%   | 06/01/13            | 130,000       | 130,000       | 19,610                        |
|   |                  |                    | 3.90%   | 06/01/14            | 135,000       | 135,000       | 14,508                        |
|   |                  |                    | 4.00%   | 06/01/15            | 145,000       | 145,000       | 8,975                         |
|   |                  |                    | 4.05%   | 06/01/16            | 150,000       | 150,000       | 3,038                         |
|   |                  |                    |   |                     | 1,575,000     | 1,470,000     | 345,829                       |
|   |                  |                    | State of Michigan urban land<br>assembly loan | 12/15/1999          | \$ 1,276,900  | 0.00%         | 10/31/04                      |
| 0.00%   | 10/31/05         | 150,000            |   |                     |               | 150,000       | -                             |
| 0.00%   | 10/31/06         | 150,000            |   |                     |               | 150,000       | -                             |
| 0.00%   | 10/31/07         | 200,000            |   |                     |               | 200,000       | -                             |
| 0.00%   | 10/31/08         | 200,000            |   |                     |               | 200,000       | -                             |
| 0.00%   | 10/31/09         | 276,900            |   |                     |               | 276,900       | -                             |
|   |                  | 1,126,900          |   |                     |               | 976,900       | -                             |
| Michigan transportation fund refunding bonds<br>(\$4,593 unamortized premium) | 10/1/2002        | \$ 2,245,000       | 2.00%   | 06/01/04            | 350,000       | -             | -                             |
|   |                  |                    | 2.25%   | 06/01/05            | 370,000       | 370,000       | 37,475                        |
|   |                  |                    | 2.50%   | 06/01/06            | 385,000       | 385,000       | 28,500                        |
|   |                  |                    | 2.88%   | 06/01/07            | 400,000       | 400,000       | 17,937                        |
|   |                  |                    | 3.13%   | 06/01/08            | 390,000       | 390,000       | 6,093                         |
|   |                  |                    |   |                     | 1,895,000     | 1,545,000     | 90,005                        |
| Michigan transportation fund bonds  | 11/1/1997        | \$ 1,950,000       | 4.10%   | 12/01/04            | 205,000       | -             | -                             |
|   |                  |                    | 4.15%   | 12/01/05            | 215,000       | 215,000       | 28,781                        |
|   |                  |                    | 4.20%   | 12/01/06            | 230,000       | 230,000       | 19,860                        |
|   |                  |                    | 4.25%   | 12/01/07            | 240,000       | 240,000       | 10,200                        |
|   |                  |                    |   |                     | 890,000       | 685,000       | 58,841                        |
| TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE                         |                  |                    |   |                     | \$ 7,151,900  | \$ 5,816,900  | \$ 616,762                    |
| TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE                              |                  |                    |   |                     | \$ 22,383,823 | \$ 28,005,322 | \$ 6,056,956                  |

## SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2004

|  | Date<br>of Issue | Amount<br>of Issue | Interest<br>Rate | Date of<br>Maturity |                      |                      | Annual<br>Interest<br>Payable |
|--|------------------|--------------------|------------------|---------------------|----------------------|----------------------|-------------------------------|
|  |                  |                    |                  |                     | 2003                 | 2004                 |                               |
| <b>Discretely Presented Component Unit Bonds and Loans Payable:</b>                      |                  |                    |                  |                     |                      |                      |                               |
| Downtown Development Authority<br>promissory note to Muskegon County                     | 8/10/1989        | \$ 1,000,000       | 0.00%            | 08/30/19            | \$ 1,000,000         | \$ 1,000,000         | \$ -                          |
|  |                  |                    |                  |                     | 1,000,000            | 1,000,000            | -                             |
| Downtown Development Authority<br>refunding bonds  | 9/1/2001         | \$ 4,005,000       | 4.00%            | 06/01/04            | 180,000              | -                    | -                             |
|  |                  |                    | 4.00%            | 06/01/05            | 185,000              | 185,000              | 153,192                       |
|  |                  |                    | 4.00%            | 06/01/06            | 200,000              | 200,000              | 145,492                       |
|  |                  |                    | 4.00%            | 06/01/07            | 200,000              | 200,000              | 137,492                       |
|  |                  |                    | 4.00%            | 06/01/08            | 210,000              | 210,000              | 129,292                       |
|  |                  |                    | 4.20%            | 06/01/09            | 220,000              | 220,000              | 120,472                       |
|  |                  |                    | 4.25%            | 06/01/10            | 230,000              | 230,000              | 110,964                       |
|  |                  |                    | 4.35%            | 06/01/11            | 240,000              | 240,000              | 100,857                       |
|  |                  |                    | 4.45%            | 06/01/12            | 245,000              | 245,000              | 90,187                        |
|  |                  |                    | 4.55%            | 06/01/13            | 260,000              | 260,000              | 78,821                        |
|  |                  |                    | 4.65%            | 06/01/14            | 270,000              | 270,000              | 66,628                        |
|  |                  |                    | 4.75%            | 06/01/15            | 280,000              | 280,000              | 53,700                        |
|  |                  |                    | 4.85%            | 06/01/16            | 300,000              | 300,000              | 39,775                        |
|  |                  |                    | 5.00%            | 06/01/17            | 315,000              | 315,000              | 24,625                        |
|  |                  |                    | 5.00%            | 06/01/18            | 335,000              | 335,000              | 8,375                         |
|  |                  |                    |                  |                     | 3,670,000            | 3,490,000            | 1,259,872                     |
| Local Development Finance Authority<br>Smartzone Bonds<br>(\$8,018 unamortized discount) | 11/1/2002        | \$ 4,725,000       | 0.00%            | 11/01/04            | -                    | -                    | -                             |
|  |                  |                    | 0.00%            | 11/01/05            | -                    | -                    | 205,147                       |
|  |                  |                    | 0.00%            | 11/01/06            | -                    | -                    | 205,147                       |
|  |                  |                    | 3.25%            | 11/01/07            | 80,000               | 80,000               | 205,147                       |
|  |                  |                    | 3.50%            | 11/01/08            | 80,000               | 80,000               | 202,547                       |
|  |                  |                    | 3.63%            | 11/01/09            | 80,000               | 80,000               | 199,747                       |
|  |                  |                    | 3.88%            | 11/01/10            | 80,000               | 80,000               | 196,847                       |
|  |                  |                    | 3.88%            | 11/01/11            | 80,000               | 80,000               | 193,747                       |
|  |                  |                    | 4.00%            | 11/01/12            | 180,000              | 180,000              | 190,647                       |
|  |                  |                    | 3.90%            | 11/01/13            | 240,000              | 240,000              | 183,447                       |
|  |                  |                    | 4.05%            | 11/01/14            | 305,000              | 305,000              | 174,087                       |
|  |                  |                    | 4.05%            | 11/01/15            | 325,000              | 325,000              | 161,736                       |
|  |                  |                    | 4.15%            | 11/01/16            | 340,000              | 340,000              | 148,572                       |
|  |                  |                    | 4.25%            | 11/01/17            | 355,000              | 355,000              | 134,462                       |
|  |                  |                    | 4.35%            | 11/01/18            | 375,000              | 375,000              | 119,376                       |
|  |                  |                    | 4.45%            | 11/01/19            | 395,000              | 395,000              | 103,062                       |
|  |                  |                    | 4.60%            | 11/01/20            | 400,000              | 400,000              | 85,486                        |
|  |                  |                    | 4.60%            | 11/01/21            | 255,000              | 255,000              | 67,086                        |
|  |                  |                    | 4.60%            | 11/01/22            | 265,000              | 265,000              | 55,356                        |
|  |                  |                    | 4.85%            | 11/01/23            | 280,000              | 280,000              | 43,166                        |
|  |                  |                    | 4.85%            | 11/01/24            | 295,000              | 295,000              | 29,586                        |
|  |                  |                    | 4.85%            | 11/01/25            | 315,000              | 315,000              | 15,278                        |
|  |                  |                    |                  |                     | 4,725,000            | 4,725,000            | 2,919,676                     |
| <b>TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE</b>                 |                  |                    |                  |                     | <b>\$ 9,395,000</b>  | <b>\$ 9,215,000</b>  | <b>\$ 4,179,548</b>           |
| <b>TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE</b>                                    |                  |                    |                  |                     | <b>\$ 31,778,823</b> | <b>\$ 37,220,322</b> | <b>\$ 10,236,504</b>          |

**STATISTICAL SECTION**  
**(UNAUDITED)**

City of Muskegon  
GENERAL FUND REVENUES AND OTHER FINANCING SOURCES BY SOURCE  
Last Ten Fiscal Years

| Year | Local<br>Taxes (a) | % of<br>Total | Licenses<br>& Permits | % of<br>Total | Intergo-<br>vernmental | % of<br>Total | Charges for<br>Service | % of<br>Total | Interest<br>and Rent | % of<br>Total | Fines<br>and Fees | % of<br>Total | Transfers In | % of<br>Total | Other        | % of<br>Total | Total (b)     | %<br>Change |
|------|--------------------|---------------|-----------------------|---------------|------------------------|---------------|------------------------|---------------|----------------------|---------------|-------------------|---------------|--------------|---------------|--------------|---------------|---------------|-------------|
| 1995 | \$ 9,455,492       | 56.8%         | \$ 872,478            | 5.2%          | \$ 4,068,757           | 24.5%         | \$ 240,506             | 1.4%          | \$ 388,592           | 2.3%          | \$ 213,384        | 1.3%          | \$ 169,298   | 1.0%          | \$ 1,224,672 | 7.4%          | \$ 16,633,179 | -           |
| 1996 | 9,218,272          | 52.2%         | 829,441               | 4.7%          | 5,171,357              | 29.3%         | 1,004,833              | 5.7%          | 453,612              | 2.6%          | 266,374           | 1.5%          | 205,229      | 1.2%          | 517,096      | 2.9%          | 17,666,214    | 6.2%        |
| 1997 | 11,323,885         | 55.6%         | 845,519               | 4.2%          | 5,650,079              | 27.7%         | 1,432,452              | 7.0%          | 512,475              | 2.5%          | 246,943           | 1.2%          | 149,789      | 0.7%          | 200,946      | 1.0%          | 20,362,088    | 15.3%       |
| 1998 | 11,855,295         | 54.8%         | 850,890               | 3.9%          | 5,507,100              | 25.4%         | 1,620,924              | 7.5%          | 602,811              | 2.8%          | 434,478           | 2.0%          | 360,349      | 1.7%          | 412,008      | 1.9%          | 21,643,855    | 6.3%        |
| 1999 | 11,961,023         | 55.8%         | 1,015,777             | 4.7%          | 5,286,569              | 24.6%         | 1,911,915              | 8.9%          | 465,749              | 2.2%          | 277,369           | 1.3%          | 177,408      | 0.8%          | 355,871      | 1.7%          | 21,451,681    | -0.9%       |
| 2000 | 12,831,435         | 54.2%         | 1,129,001             | 4.8%          | 6,008,823              | 25.4%         | 2,093,312              | 8.8%          | 599,409              | 2.5%          | 338,677           | 1.4%          | 207,636      | 0.9%          | 477,223      | 2.0%          | 23,685,516    | 10.4%       |
| 2001 | 12,878,483         | 54.9%         | 1,014,598             | 4.3%          | 6,184,017              | 26.4%         | 1,971,996              | 8.4%          | 490,863              | 2.1%          | 350,557           | 1.5%          | 178,457      | 0.8%          | 377,640      | 1.6%          | 23,446,611    | -1.0%       |
| 2002 | 13,465,040         | 57.0%         | 1,071,236             | 4.5%          | 5,643,611              | 23.9%         | 2,091,356              | 8.9%          | 332,560              | 1.4%          | 393,314           | 1.7%          | 180,985      | 0.8%          | 439,062      | 1.9%          | 23,617,164    | 0.7%        |
| 2003 | 13,246,744         | 56.8%         | 1,108,780             | 4.8%          | 5,173,722              | 22.2%         | 2,240,866              | 9.6%          | 189,485              | 0.8%          | 471,682           | 2.0%          | 566,282      | 2.4%          | 331,195      | 1.4%          | 23,328,756    | -1.2%       |
| 2004 | 13,767,040         | 58.8%         | 1,139,014             | 4.9%          | 4,911,633              | 21.0%         | 2,138,678              | 9.1%          | 160,766              | 0.7%          | 622,165           | 2.7%          | 301,209      | 1.3%          | 361,288      | 1.5%          | 23,401,793    | 0.3%        |

(a) Includes Industrial and Commercial Facilities Tax revenue.

(b) When comparing "Total Revenues" with "Total Expenditures" as presented in the exhibit entitled "General Fund Expenditures and Other Uses by Function" the difference reflects the use of fund balance (when expenditures are greater than revenues) or addition to fund balance (when revenues are greater than expenditures).

SOURCE: City of Muskegon Finance Department

City of Muskegon

GENERAL FUND EXPENDITURES AND OTHER USES BY FUNCTION

Last Ten Fiscal Years

| Year | Legislative | % of<br>Total | General<br>Government | % of<br>Total | Public<br>Safety | % of<br>Total | Public<br>Works | % of<br>Total | Leisure<br>Services | % of<br>Total | Planning &<br>Development | % of<br>Total | Other (a)    | % of<br>Total | Total (b)     | %<br>Change |
|------|-------------|---------------|-----------------------|---------------|------------------|---------------|-----------------|---------------|---------------------|---------------|---------------------------|---------------|--------------|---------------|---------------|-------------|
| 1995 | \$ 72,641   | 0.4%          | \$ 1,955,314          | 12.0%         | \$ 8,009,675     | 49.0%         | \$ 737,771      | 4.5%          | \$ 1,399,727        | 8.6%          | \$ 992,780                | 6.1%          | \$ 3,169,678 | 19.4%         | \$ 16,337,586 | -           |
| 1996 | 80,482      | 0.4%          | 2,343,820             | 13.0%         | 8,347,026        | 46.3%         | 720,714         | 4.0%          | 1,744,754           | 9.7%          | 1,289,161                 | 7.2%          | 3,492,202    | 19.4%         | 18,018,159    | 10.3%       |
| 1997 | 109,432     | 0.5%          | 2,854,773             | 14.0%         | 8,709,644        | 42.8%         | 2,587,188       | 12.7%         | 2,098,575           | 10.3%         | 1,549,156                 | 7.6%          | 2,449,552    | 12.0%         | 20,358,320    | 13.0%       |
| 1998 | 100,166     | 0.5%          | 2,858,746             | 13.2%         | 9,463,878        | 43.7%         | 2,517,806       | 11.6%         | 2,352,626           | 10.9%         | 1,668,148                 | 7.7%          | 2,673,097    | 12.4%         | 21,634,467    | 6.3%        |
| 1999 | 97,495      | 0.4%          | 2,906,536             | 13.2%         | 10,314,125       | 46.9%         | 2,738,257       | 12.4%         | 2,329,065           | 10.6%         | 1,338,643                 | 6.1%          | 2,287,760    | 10.4%         | 22,011,881    | 1.7%        |
| 2000 | 108,223     | 0.5%          | 3,044,816             | 13.7%         | 11,096,769       | 49.9%         | 2,668,788       | 12.0%         | 2,345,712           | 10.6%         | 931,336                   | 4.2%          | 2,037,013    | 9.2%          | 22,232,657    | 1.0%        |
| 2001 | 113,296     | 0.5%          | 3,187,741             | 13.7%         | 11,130,536       | 47.9%         | 2,678,089       | 11.5%         | 2,637,586           | 11.4%         | 948,756                   | 4.1%          | 2,539,974    | 10.9%         | 23,235,978    | 4.5%        |
| 2002 | 131,889     | 0.6%          | 3,467,461             | 14.5%         | 11,497,673       | 48.0%         | 2,680,695       | 11.2%         | 2,610,935           | 10.9%         | 971,335                   | 4.1%          | 2,611,548    | 10.9%         | 23,971,536    | 3.2%        |
| 2003 | 103,449     | 0.4%          | 3,418,263             | 14.4%         | 11,437,516       | 48.2%         | 2,731,241       | 11.5%         | 2,624,275           | 11.1%         | 987,097                   | 4.2%          | 2,403,493    | 10.1%         | 23,705,334    | -1.1%       |
| 2004 | 83,235      | 0.4%          | 3,320,050             | 14.2%         | 12,272,681       | 52.5%         | 2,543,512       | 10.9%         | 2,259,699           | 9.7%          | 797,072                   | 3.4%          | 2,111,771    | 9.0%          | 23,388,020    | -1.3%       |

(a) Includes "Transfers to Other Funds", insurance costs, debt service, major capital improvements, and miscellaneous expenditures.

(b) When comparing "Total Expenditures" with "Total Revenues" as presented in the exhibit entitled "General Fund Revenues and Other Financing Sources by Source" the difference reflects the use of fund balance (when expenditures are greater than revenues) or addition to fund balance (when revenues are greater than expenditures).

SOURCE: City of Muskegon Finance Department



City of Muskegon

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (a)

Last Ten Fiscal Years

| Fiscal<br>Year | Real Property     |                              | Personal Property |                              | Total Property    |                              | Assessed to<br>Estimated<br>Value |
|----------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|------------------------------|-----------------------------------|
|                | Assessed<br>Value | Estimated<br>Actual<br>Value | Assessed<br>Value | Estimated<br>Actual<br>Value | Assessed<br>Value | Estimated<br>Actual<br>Value |                                   |
| 1995           | \$ 398,226,800    | \$ 796,453,600               | \$ 135,142,506    | \$ 270,285,012               | \$ 533,369,306    | \$ 1,066,738,612             | 50.0%                             |
| 1996           | 420,246,500       | 840,493,000                  | 154,302,600       | 308,605,200                  | 574,549,100       | 1,149,098,200                | 50.0%                             |
| 1997           | 438,157,200       | 876,314,400                  | 165,327,700       | 330,655,400                  | 603,484,900       | 1,206,969,800                | 50.0%                             |
| 1998           | 461,049,700       | 922,099,400                  | 153,932,700       | 307,865,400                  | 614,982,400       | 1,229,964,800                | 50.0%                             |
| 1999           | 496,781,800       | 993,563,600                  | 179,928,300       | 359,856,600                  | 676,710,100       | 1,353,420,200                | 50.0%                             |
| 2000           | 543,897,900       | 1,087,795,800                | 180,164,900       | 360,329,800                  | 724,062,800       | 1,448,125,600                | 50.0%                             |
| 2001           | 601,420,300       | 1,202,840,600                | 211,503,600       | 423,007,200                  | 812,923,900       | 1,625,847,800                | 50.0%                             |
| 2002           | 638,624,250       | 1,277,248,500                | 187,393,600       | 374,787,200                  | 826,017,850       | 1,652,035,700                | 50.0%                             |
| 2003           | 661,692,712       | 1,323,385,424                | 177,348,400       | 354,696,800                  | 839,041,112       | 1,678,082,224                | 50.0%                             |
| 2004           | 661,233,389       | 1,322,466,778                | 168,106,228       | 336,212,456                  | 829,339,617       | 1,658,679,234                | 50.0%                             |

(a) Includes property assessed under the Industrial Facilities Tax (IFT), Commercial Facilities Tax (CFT), Neighborhood Enterprise Zone (NEZ), Commercial Enterprise Zone (CEZ) and Renaissance Zone (REZ) exemption programs.

SOURCE: City of Muskegon Assessor's Office/Muskegon County Equalization Department

City of Muskegon

TEN LARGEST PROPERTY ASSESSMENTS

AGGREGATE TAXABLE VALUES BY OWNER

December 2004

| Name of Taxpayer               | Taxable<br>Value Real<br>Property | Taxable<br>Value<br>Personal<br>Property | Taxable<br>Value<br>Act 198 &<br>Special Acts | Total<br>Taxable<br>Value | Percent        |
|--------------------------------|-----------------------------------|--|---|---------------------------|----------------|
| Consumers Energy Company       | \$ 47,315,836                     | \$ 10,446,800                            | \$ 11,406,756                                 | \$ 69,169,392             | 9.56%          |
| Sappi (S.D. Warren Co.)        | 7,291,501                         | 20,480,500                               | 26,209,700                                    | 53,981,701                | 7.46%          |
| DTE Energy (formerly Michcon)  | 1,399,770                         | 7,670,400                                | -   | 9,070,170                 | 1.25%          |
| Johnson Technology             | 854,535                           | 5,516,500                                | 1,506,209                                     | 7,877,244                 | 1.09%          |
| ADAC Plastics                  | -                                 | 2,477,600                                | 4,250,600                                     | 6,728,200                 | 0.93%          |
| Dudley Corporation             | 1,537,367                         | 2,500                                    | 4,783,600                                     | 6,323,467                 | 0.87%          |
| Bekaert Steel Wire Corporation | 2,264,609                         | 2,184,900                                | 1,588,528                                     | 6,038,037                 | 0.83%          |
| Holland Neway International    | 2,242,876                         | 999,300                                  | 2,493,700                                     | 5,735,876                 | 0.79%          |
| Brunswick                      | 3,045,610                         | 2,673,400                                | -   | 5,719,010                 | 0.79%          |
| ESCO Company                   | 957,906                           | 4,257,600                                | 406,000                                       | 5,621,506                 | 0.78%          |
| Total--10 Largest              |                                   |  |   | 176,264,603               | 24.37%         |
| Total--All Other               |                                   |  |   | 546,954,113               | 75.63%         |
|                                |                                   |  |   | <u>\$ 723,218,716</u>     | <u>100.00%</u> |

SOURCE: Muskegon County Equalization Department

**City of Muskegon**

**TEN LARGEST TAXPAYERS**

**Last Five Fiscal Years**

| <b>Name of Taxpayer</b>                | <b>2000</b>         | <b>2001</b>          | <b>2002</b>         | <b>2003 (a)</b>     | <b>2004 (a)</b>     |
|--|---------------------|----------------------|---------------------|---------------------|---------------------|
| <b>Consumers Energy Company</b>        | \$ 3,615,015        | \$ 4,010,151         | \$ 3,617,363        | \$ 3,221,146        | \$ 3,351,241        |
| <b>Sappi (S.D. Warren Co.)</b>         | 2,432,128           | 2,701,211            | 2,670,623           | 2,204,318           | 2,111,973           |
| <b>DTE Energy (formerly Michcon)</b>   | 472,834             | 535,702              | 415,712             | 379,603             | 467,925             |
| <b>Johnson Technology</b>              | 356,680             | 314,506              | 346,895             | 375,696             | 366,216             |
| <b>Brunswick</b>                       | 468,885             | 415,892              | 429,291             | 372,587             | 295,305             |
| <b>Terrace Partners LLC</b>            | 329,753             | 345,368              | 300,515             | 272,893             | 284,680             |
| <b>ESCO Company</b>                    | -                   | -                    | -                   | 281,294             | 278,538             |
| <b>Bekaert Steel Wire Corporation</b>  | -                   | -                    | -                   | -                   | 270,540             |
| <b>Lorin Industries</b>                | 286,459             | 306,336              | 345,929             | 336,627             | 269,096             |
| <b>Sherman Shopping Center LLC</b>     | -                   | -                    | -                   | -                   | 246,859             |
| <b>ADAC Plastics</b>                   | -                   | -                    | 302,927             | 322,449             | -                   |
| <b>Ango American Clays Corporation</b> | -                   | 833,036              | -                   | -                   | -                   |
| <b>Muskegon Properties Company</b>     | 348,147             | 334,728              | -                   | -                   | -                   |
| <b>Holland Neway International</b>     | 289,930             | 297,741              | 281,153             | -                   | -                   |
| <b>Cole's Quality Foods</b>            | 270,315             | -                    | 259,390             | -                   | -                   |
|  | <b>\$ 8,870,146</b> | <b>\$ 10,094,671</b> | <b>\$ 8,969,798</b> | <b>\$ 7,766,613</b> | <b>\$ 7,942,373</b> |

(a) Starting in 2003, the 6.0-mill State Education Tax (SET) is collected in the summer by Muskegon County. Figures shown here are for winter taxes only as collected by the City of Muskegon.

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

TAX RATES PER \$1,000 TAXABLE VALUE FOR CITY AND OVERLAPPING UNITS

Last Ten Fiscal Years

| Year | City<br>General | City<br>Special | Debt<br>Service | Total<br>City | State<br>Education<br>Tax | School<br>District | Library<br>District (a) | County<br>Schools (b) | County<br>General (c) | Grand<br>Total |
|------|-----------------|-----------------|-----------------|---------------|---------------------------|--------------------|-------------------------|-----------------------|-----------------------|----------------|
| 1995 | \$ 7.0000       | \$ 3.1008       | \$ -            | \$ 10.1008    | \$ 6.0000                 | \$ 26.0000         | \$ -                    | \$ 5.0885             | \$ 6.2248             | \$ 53.4141     |
| 1996 | 7.0000          | 3.0988          | -               | 10.0988       | 6.0000                    | 26.0000            | -                       | 5.0885                | 6.7136                | 53.9009        |
| 1997 | 7.0000          | 3.0937          | -               | 10.0937       | 6.0000                    | 26.0000            | -                       | 5.0885                | 6.7136                | 53.8958        |
| 1998 | 7.0000          | 3.0950          | -               | 10.0950       | 6.0000                    | 26.0000            | -                       | 5.0885                | 6.7136                | 53.8971        |
| 1999 | 7.0000          | 3.0880          | -               | 10.0880       | 6.0000                    | 25.9947            | -                       | 5.0707                | 6.6550                | 53.8084        |
| 2000 | 7.0000          | 3.0859          | -               | 10.0859       | 6.0000                    | 25.9947            | -                       | 5.0466                | 6.6256                | 53.7528        |
| 2001 | 7.0000          | 3.0792          | -               | 10.0792       | 6.0000                    | 25.0000            | 2.4000                  | 5.0075                | 6.5799                | 55.0666        |
| 2002 | 7.0000          | 3.0786          | -               | 10.0786       | 6.0000                    | 25.0000            | 2.4000                  | 5.9633                | 6.6957                | 56.1376        |
| 2003 | 7.5000          | 2.5774          | -               | 10.0774       | 5.0000                    | 25.0000            | 2.4000                  | 5.9617                | 6.7957                | 55.2348        |
| 2004 | 8.5000          | 2.5768          | -               | 11.0768       | 6.0000                    | 25.0000            | 2.4000                  | 5.9617                | 6.7957                | 57.2342        |

(a) Prior to 2001, the millage for libraries was included under the school district millages.

(b) Includes tax millages for the Muskegon Area Intermediate School District and for Muskegon Community College.

(c) Includes the general County tax millage and the special millages for the Muskegon County Museum and veteran's programs.

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

| Fiscal Year | Total Tax Levy | Current Tax Collections | Percent Of Levy Collected | Delinquent Tax Collections | Total Tax Collections | Charge backs On Uncollected Delinquent Taxes | Outstanding Delinquent Personal | Outstanding Delinquent Specific | Percent of Delinquent Taxes to Levy |
|-------------|----------------|-------------------------|---------------------------|----------------------------|-----------------------|--|---------------------------------|---------------------------------|-------------------------------------|
| 1995        | \$ 5,757,393   | \$ 5,174,898            | 89.9%                     | \$ 546,056                 | \$ 5,720,954          | \$ -   | \$ 11,606                       | \$ 997                          | 0.22%                               |
| 1996        | 6,650,150      | 5,727,915               | 86.1%                     | 867,946                    | 6,595,861             | -  | 27,325                          | 3,427                           | 0.46%                               |
| 1997        | 6,814,119      | 5,983,967               | 87.8%                     | 556,509                    | 6,540,476             | -  | 109,199                         | 13,197                          | 1.80%                               |
| 1998        | 6,793,669      | 6,074,967               | 89.4%                     | 371,432                    | 6,446,399             | -  | 65,466                          | 4,526                           | 1.03%                               |
| 1999        | 6,925,862      | 6,185,473               | 89.3%                     | 632,875                    | 6,818,348             | 46,219                                       | 89,309                          | 10,148                          | 2.10%                               |
| 2000        | 7,378,653      | 6,631,358               | 89.9%                     | 382,839                    | 7,014,197             | 47,117                                       | 60,847                          | 7,845                           | 1.57%                               |
| 2001        | 7,449,191      | 6,625,670               | 88.9%                     | 88,768                     | 6,714,438             | 24,866                                       | 184,894                         | 5,496                           | 2.89%                               |
| 2002        | 7,922,898      | 7,036,846               | 88.8%                     | 123,906                    | 7,160,752             | 30,056                                       | 168,666                         | 15,700                          | 2.71%                               |
| 2003        | 8,095,194      | 7,201,599               | 89.0%                     | 710,353                    | 7,911,952             | 27,338                                       | 154,843                         | 20,856                          | 2.51%                               |
| 2004        | 8,292,451      | 7,230,231               | 87.2%                     | 772,545                    | 8,002,776             | 36,179                                       | 82,305                          | 22,655                          | 1.70%                               |

SOURCE: City of Muskegon Treasurer' Office

City of Muskegon

**SPECIAL ASSESSMENT LEVIES AND COLLECTIONS**

As of December 31, 2004

| Year Levied     | Amount of<br>Original<br>Assessment | Amount<br>Collected to Date | Outstanding<br>Balance | Percent<br>Uncollected |
|-----------------|-------------------------------------|-----------------------------|------------------------|------------------------|
| Prior           | \$ 662,347                          | \$ 662,009                  | \$ 338                 | 0.05%                  |
| 1995            | 930,259                             | 930,259                     | -                      | 0.00%                  |
| 1996            | 754,169                             | 725,964                     | 28,205                 | 3.74%                  |
| 1997            | 643,472                             | 563,093                     | 80,379                 | 12.49%                 |
| 1998            | 573,392                             | 497,158                     | 76,234                 | 13.30%                 |
| 1999            | 661,020                             | 524,818                     | 136,202                | 20.60%                 |
| 2000            | 1,152,324                           | 865,151                     | 287,173                | 24.92%                 |
| 2001            | 921,585                             | 569,836                     | 351,749                | 38.17%                 |
| 2002            | 778,405                             | 323,002                     | 455,403                | 58.50%                 |
| 2003            | 2,404,529                           | 365,010                     | 2,039,519              | 84.82%                 |
| 2004            | 384,559                             | 121,033                     | 263,526                | 68.53%                 |
| Spread to taxes | -                                   | -                           | 443,954                | n/a                    |
| Total           | <u>\$ 9,866,061</u>                 | <u>\$ 6,147,333</u>         | <u>\$ 4,162,682</u>    | <u>42.19%</u>          |

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

STATEMENT OF BONDED INDEBTEDNESS

December 31, 2004

| Bond Issue  | Year<br>Issued | Average<br>Interest<br>Rate (%) | Amount<br>of Issue   | Outstanding<br>Balance | Principal<br>Due 2005 | Interest<br>Due 2005 | Final<br>Maturity |
|---|----------------|---------------------------------|----------------------|------------------------|-----------------------|----------------------|-------------------|
| Special Assessment Improvement (Sidewalks)            | 1996           | 4.273                           | \$ 1,155,000         | \$ 25,000              | \$ 25,000             | \$ 1,100             | 2005              |
| Muskegon County Wastewater Contract                   | 1996           | 5.189                           | 8,034,263            | 964,112 (a)            | 964,112               | 27,475               | 2005              |
| City of Muskegon MTF Bonds                            | 1997           | 4.290                           | 1,950,000            | 685,000                | 215,000               | 28,781               | 2007              |
| City of Muskegon MTF Bonds - Refunding                | 2002           | 2.844                           | 2,245,000            | 1,545,000              | 370,000               | 37,475               | 2008              |
| Muskegon County Wastewater Contract - Refunding       | 2002           | 3.281                           | 6,990,000            | 3,815,544 (a)          | 116,862               | 187,564              | 2008              |
| Special Assessment Improvement (Sidewalks)            | 1998           | 4.034                           | 1,495,000            | 615,000                | 165,000               | 21,259               | 2009              |
| State of Michigan Urban Land Assembly Loan            | 1999           | 0.000                           | 1,276,900            | 976,900                | 150,000               | -                    | 2009              |
| Special Assessment Improvement (Sidewalks)            | 2000           | 5.114                           | 825,000              | 500,000                | 85,000                | 21,883               | 2010              |
| Water Supply System Revenue Bonds                     | 1993           | 5.430                           | 5,465,000            | 900,000                | -                     | 40,500               | 2013              |
| Capital Improvement Bonds                             | 2003           | 3.620                           | 1,575,000            | 1,470,000              | 105,000               | 47,624               | 2016              |
| DDA Refunding Bonds                                   | 2001           | 4.680                           | 4,005,000            | 3,490,000              | 185,000               | 153,192              | 2018              |
| DDA Promissory Note with Muskegon County              | 1989           | 0.000                           | 1,000,000            | 1,000,000              | -                     | -                    | 2019              |
| Water Supply System Revenue Bonds                     | 1999           | 4.570                           | 9,575,000            | 8,025,000              | 435,000               | 344,704              | 2019              |
| Drinking Water State Revolving Fund (DWRP) Loan       | 2004           | 2.125                           | 13,900,000           | 8,483,766              | -                     | 180,280              | 2019              |
| Local Development Finance Authority Bonds (Smartzone) | 2002           | 4.552                           | 4,725,000            | 4,725,000              | -                     | 205,147              | 2025              |
|   |                |                                 | <u>\$ 64,216,163</u> | <u>\$ 37,220,322</u>   | <u>\$ 2,815,974</u>   | <u>\$ 1,296,984</u>  |                   |

(a) Estimated City's Share of Debt.

SOURCE: City of Muskegon Finance Department





**City of Muskegon**  
**STATEMENT OF DIRECT AND OVERLAPPING DEBT**  
**December 31, 2004**

**Direct Debt:**

|                                    |                   |
|------------------------------------|-------------------|
| Revenue Bonds                      | \$ 17,408,766     |
| Special Assessment Bonds           | 2,610,000         |
| Intergovernmental Bonds            | 5,756,556         |
| Michigan Transportation Fund Bonds | 2,230,000         |
| General Obligation Bonds           | -                 |
| Component Unit Debt                | 9,215,000         |
|                                    | <u>37,220,322</u> |

**Less:**

|   |                   |
|---|-------------------|
| Revenue Bonds and Revenue Supported Intergovernmental Bonds | \$ 18,408,766     |
| Michigan Transportation Fund Bonds                          | 2,230,000         |
| Special Assessment Debt                                     | 2,610,000         |
|   | <u>23,248,766</u> |
| <b>NET DIRECT DEBT</b>                                      | <b>13,971,556</b> |

**Overlapping Debt:**

|  | Debt<br>Outstanding<br>at 12/31/2004 | % of SEV<br>Within City | City Share<br>of Debt<br>Outstanding |                             |
|--|--------------------------------------|-------------------------|--------------------------------------|-----------------------------|
| Muskegon School District               | \$ 39,344,136                        | 94.88%                  | \$ 37,329,716                        |                             |
| Orchard View School District           | 47,200,000                           | 29.64%                  | 13,990,080                           |                             |
| Reeths-Puffer School District          | 72,023,093                           | 9.71%                   | 6,993,442                            |                             |
| Muskegon Community College             | 9,985,000                            | 17.32%                  | 1,729,402                            |                             |
| County of Muskegon                     | <u>25,510,000</u>                    | 17.32%                  | <u>4,418,332</u>                     |                             |
|  | <u>\$ 194,062,229</u>                |                         | <u>\$ 64,460,973</u>                 | 64,460,973                  |
| <b>NET DIRECT AND OVERLAPPING DEBT</b> |                                      |                         |                                      | <b><u>\$ 78,432,529</u></b> |

|  | Per Capita<br>Debt (a) | Ratio of<br>Debt to<br>SEV (b) |
|--|------------------------|--------------------------------|
| <b>Net Direct Debt</b>                 | \$ 348.37              | 1.85%                          |
| <b>Net Direct and Overlapping Debt</b> | \$ 1,955.68            | 10.37%                         |

(a) Population equals 40,105.

(b) State equalized valuation (SEV) equals \$ 756,635,300

SOURCE: City of Muskegon Finance Department; Municipal Advisory Council of Michigan

City of Muskegon

**RATIO OF DEBT SERVICE FOR GENERAL BONDED DEBT  
TO TOTAL GENERAL FUND EXPENDITURES AND OTHER USES**

Last Ten Fiscal Years

| Fiscal<br>Year | Principal | Interest  | Contractual<br>Debt | Total<br>Debt<br>Service | Total<br>General Fund<br>Expenditures and<br>Other Uses | Ratio of Debt<br>Service to General<br>Fund Expenditures<br>and Other Uses |
|----------------|-----------|-----------|---------------------|--------------------------|---|--|
| 1995           | \$ 50,000 | \$ 36,255 | \$ -                | \$ 86,255                | \$ 16,337,586   | 0.53%  |
| 1996           | 185,000   | 58,696    | 141,245             | 384,941                  | 18,018,159  | 2.14%  |
| 1997           | 200,000   | 86,102    | 220,216             | 506,318                  | 20,358,320  | 2.49%  |
| 1998           | 260,000   | 77,712    | 201,572             | 539,284                  | 21,634,467  | 2.49%  |
| 1999           | 265,000   | 65,362    | 125,825             | 456,187                  | 22,011,881  | 2.07%  |
| 2000           | 270,000   | 52,346    | 78,971              | 401,317                  | 22,232,657  | 1.81%  |
| 2001           | 280,000   | 38,726    | 45,741              | 364,467                  | 23,235,978  | 1.57%  |
| 2002           | 185,000   | 24,406    | -                   | 209,406                  | 23,971,536  | 0.87%  |
| 2003           | 195,000   | 17,006    | -                   | 212,006                  | 23,705,334  | 0.89%  |
| 2004           | 205,000   | 8,816     | -                   | 213,816                  | 23,388,020  | 0.91%  |

SOURCE: City of Muskegon Finance Department

City of Muskegon  
**REVENUE BOND COVERAGE**  
**Sewage Disposal System**

Last Ten Fiscal Years

| Fiscal<br>Year | Gross<br>Revenue (a) |           | Direct<br>Operating<br>Expenses (b) |           | Net Revenue<br>Available For<br>Debt Service | Debt Service Requirements |            |            | Coverage |
|----------------|----------------------|-----------|-------------------------------------|-----------|--|---------------------------|------------|------------|----------|
|                |                      |           |                                     |           |  | Principal                 | Interest   | Total      |          |
| 1995           | \$                   | 3,651,607 | \$                                  | 2,670,582 | \$ 981,025                                   | \$ 286,136                | \$ 412,038 | \$ 698,174 | 1.41     |
| 1996           |                      | 2,940,704 |                                     | 2,468,476 | 472,228                                      | 285,725                   | 385,367    | 671,092    | 0.70     |
| 1997           |                      | 3,295,954 |                                     | 2,390,240 | 905,714                                      | 242,480                   | 343,261    | 585,741    | 1.55     |
| 1998           |                      | 3,790,903 |                                     | 2,355,408 | 1,435,495                                    | 515,185                   | 261,692    | 776,877    | 1.85     |
| 1999           |                      | 3,740,179 |                                     | 2,417,775 | 1,322,404                                    | 495,963                   | 237,636    | 733,599    | 1.80     |
| 2000           |                      | 4,089,381 |                                     | 2,236,111 | 1,853,270                                    | 421,516                   | 216,776    | 638,292    | 2.90     |
| 2001           |                      | 3,991,295 |                                     | 2,656,382 | 1,334,913                                    | 399,933                   | 197,169    | 597,102    | 2.24     |
| 2002           |                      | 4,039,448 |                                     | 2,726,975 | 1,312,473                                    | 458,918                   | 137,622    | 596,540    | 2.20     |
| 2003           |                      | 4,077,482 |                                     | 2,649,454 | 1,428,028                                    | 473,329                   | 132,214    | 605,543    | 2.36     |
| 2004           |                      | 4,096,412 |                                     | 3,038,939 | 1,057,473                                    | 455,179                   | 110,520    | 565,699    | 1.87     |

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: City of Muskegon Finance Department

**City of Muskegon**  
**REVENUE BOND COVERAGE**  
**Water Supply System**

Last Ten Fiscal Years

| Fiscal<br>Year | Gross<br>Revenue (a) |           | Direct<br>Operating<br>Expenses (b) |           | Net Revenue<br>Available For<br>Debt Service | Debt Service Requirements |            |            | Coverage |
|----------------|----------------------|-----------|-------------------------------------|-----------|--|---------------------------|------------|------------|----------|
|                |                      |           |                                     |           |  | Principal                 | Interest   | Total      |          |
| 1995           | \$                   | 3,275,905 | \$                                  | 2,009,728 | \$ 1,266,177                                 | \$ 65,000                 | \$ 312,309 | \$ 377,309 | 3.36     |
| 1996           |                      | 3,208,207 |                                     | 2,105,342 | 1,102,865                                    | 100,000                   | 306,169    | 406,169    | 2.72     |
| 1997           |                      | 3,478,112 |                                     | 2,115,442 | 1,362,670                                    | 150,000                   | 296,989    | 446,989    | 3.05     |
| 1998           |                      | 3,083,359 |                                     | 2,096,426 | 986,933                                      | 150,000                   | 285,257    | 435,257    | 2.27     |
| 1999           |                      | 3,579,929 |                                     | 2,463,597 | 1,116,332                                    | 215,000                   | 409,391    | 624,391    | 1.79     |
| 2000           |                      | 3,936,337 |                                     | 2,576,864 | 1,359,473                                    | 350,000                   | 494,206    | 844,206    | 1.61     |
| 2001           |                      | 4,263,107 |                                     | 3,203,080 | 1,060,027                                    | 370,000                   | 471,301    | 841,301    | 1.26     |
| 2002           |                      | 4,051,015 |                                     | 3,030,959 | 1,020,056                                    | 390,000                   | 453,666    | 843,666    | 1.21     |
| 2003           |                      | 4,183,015 |                                     | 3,539,690 | 643,325                                      | 405,000                   | 417,559    | 822,559    | 0.78     |
| 2004           |                      | 5,016,267 |                                     | 3,186,067 | 1,830,200                                    | 420,000                   | 411,867    | 831,867    | 2.20     |

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: City of Muskegon Finance Department

City of Muskegon

RATIO OF NET BONDED DEBT TO ASSESSED VALUE

NET BONDED DEBT PER CAPITA

Last Ten Fiscal Years

| Fiscal Year | Population | Assessed Value (1) | Gross Bonded Debt | Less Debt Service Funds | Payable From Enterprise Revenues and Assessments | Net Bonded Debt | Net Bonded Debt to Assessed Value | Net Bonded Debt Per Capita |
|-------------|------------|--------------------|-------------------|-------------------------|--|-----------------|-----------------------------------|----------------------------|
| 1995        | 40,283     | \$ 533,369,306     | \$ 35,971,939     | \$ 1,267,264            | \$ 27,059,441                                    | \$ 7,645,234    | 1.4%                              | \$ 189.79                  |
| 1996        | 40,283     | 574,549,100        | 37,014,462        | 1,946,649               | 27,111,865                                       | 7,955,948       | 1.4%                              | 197.50                     |
| 1997        | 40,283     | 603,484,900        | 35,001,068        | 2,199,516               | 26,050,247                                       | 6,751,305       | 1.1%                              | 167.60                     |
| 1998        | 40,283     | 614,982,400        | 35,483,833        | 1,918,272               | 25,786,747                                       | 7,778,814       | 1.3%                              | 193.10                     |
| 1999        | 40,283     | 676,710,100        | 39,169,600        | 2,407,563               | 30,160,507                                       | 6,601,530       | 1.0%                              | 163.88                     |
| 2000        | 40,283     | 724,062,800        | 36,697,731        | 2,974,730               | 27,387,710                                       | 6,335,291       | 0.9%                              | 157.27                     |
| 2001        | 40,105     | 812,923,900        | 32,429,103        | 981,748                 | 21,797,203                                       | 9,650,152       | 1.2%                              | 240.62                     |
| 2002        | 40,105     | 826,017,850        | 34,024,914        | 250,798                 | 19,623,014                                       | 14,151,102      | 1.7%                              | 352.85                     |
| 2003        | 40,105     | 839,041,112        | 31,778,823        | 153,955                 | 19,266,923                                       | 12,357,945      | 1.5%                              | 308.14                     |
| 2004        | 40,105     | 829,339,617        | 37,220,322        | -                       | 25,798,422                                       | 11,421,900      | 1.4%                              | 284.80                     |

(1) See exhibit titled "Assessed and Estimated Actual Value of Taxable Property".

SOURCE: City of Muskegon Finance Department and Muskegon County Equalization Department

City of Muskegon

PROPERTY VALUES, CONSTRUCTION ACTIVITY AND BANK DEPOSITS

Last Ten Fiscal Years

| Year | New Construction          |              |             |              | Repairs and Additions     |              |             |              | Estimated Property Values |               |                |                 |
|------|---------------------------|--------------|-------------|--------------|---------------------------|--------------|-------------|--------------|---------------------------|---------------|----------------|-----------------|
|      | Industrial and Commercial |              | Residential |              | Industrial and Commercial |              | Residential |              | Total                     | Value         | Residential    | Non Residential |
|      | Permits                   | Value        | Permits     | Value        | Permits                   | Value        | Permits     | Value        |                           |               |                |                 |
| 1995 | 12                        | \$ 2,477,434 | 30          | \$ 5,855,005 | 82                        | \$ 5,855,005 | 846         | \$ 2,714,612 | 970                       | \$ 16,902,056 | \$ 400,193,800 | \$ 557,819,012  |
| 1996 | 10                        | 11,208,589   | 30          | 2,540,100    | 76                        | 8,460,306    | 895         | 2,371,656    | 1011                      | 24,580,651    | 420,036,700    | 592,273,500     |
| 1997 | 9                         | 6,081,963    | 24          | 2,266,142    | 105                       | 14,564,170   | 705         | 2,658,001    | 843                       | 25,570,276    | 440,078,000    | 628,265,800     |
| 1998 | 12                        | 8,192,401    | 56          | 4,598,023    | 186                       | 10,159,958   | 729         | 2,319,745    | 983                       | 25,270,127    | 475,647,400    | 610,081,800     |
| 1999 | 11                        | 3,659,209    | 53          | 4,386,560    | 136                       | 8,660,948    | 686         | 2,206,456    | 886                       | 18,913,173    | 526,466,800    | 661,855,000     |
| 2000 | 16                        | 11,827,076   | 70          | 6,853,824    | 124                       | 18,374,394   | 649         | 2,439,629    | 859                       | 39,494,923    | 591,609,562    | 856,516,038     |
| 2001 | 8                         | 3,736,102    | 37          | 14,035,551   | 101                       | 5,021,890    | 747         | 3,259,006    | 893                       | 26,052,549    | 675,090,378    | 950,757,422     |
| 2002 | 6                         | 3,696,711    | 72          | 17,619,093   | 125                       | 14,849,768   | 805         | 3,539,602    | 1008                      | 39,705,174    | 718,824,700    | 933,211,000     |
| 2003 | 4                         | 1,720,000    | 45          | 4,921,925    | 154                       | 10,695,552   | 858         | 4,032,068    | 1061                      | 21,369,545    | 776,050,245    | 912,715,275     |
| 2004 | 7                         | 1,241,000    | 38          | 4,686,880    | 106                       | 27,526,374   | 1001        | 4,508,821    | 1152                      | 37,963,075    | 777,025,799    | 890,774,234     |

NOTE: Due to bank mergers, local bank deposit information is not readily available.

SOURCE: City Inspections Department and City Assessor's Office/Muskegon County Equalization Department

**City of Muskegon**  
**DEMOGRAPHIC STATISTICS**

**December 31, 2004**

**DATE OF INCORPORATION**

|                         |                 |
|-------------------------|-----------------|
| As Village              | July 8, 1861    |
| As City of Fourth Class | March 27, 1869  |
| As Home Rule City       | October 6, 1919 |

**FORM OF GOVERNMENT**

Commission-Manager

**AREA**

18.99 square miles

**MILES OF STREETS**

196.95

**NUMBER OF STREETLIGHTS**

3,111

**FIRE PROTECTION**

|   |    |
|---|----|
| Number of stations                          | 3  |
| Number of firefighter and officer positions | 41 |

**POLICE PROTECTION**

|                                   |    |
|-----------------------------------|----|
| Number of stations                | 1  |
| Number of sworn officer positions | 76 |

**WATER SERVICE**

|                           |                           |
|---------------------------|---------------------------|
| Number of consumers       | 14,917                    |
| Average daily consumption | 8,870,000 gallons per day |
| Water mains               | 194.14                    |

**SEWER SERVICE**

|                 |              |
|-----------------|--------------|
| Sanitary sewers | 178.02 miles |
| Storm sewers    | 178.61 miles |

**LEISURE SERVICES**

|                       |                |
|-----------------------|----------------|
| Number of parks       | 64 (701 acres) |
| Lake Michigan beaches | 119 acres      |

**FULL-TIME POSITIONS**

|                     |     |
|---------------------|-----|
| Classified service  | 253 |
| Exempt (management) | 16  |
| Total               | 269 |

**ELECTIONS**

|   |        |
|---|--------|
| Number of registered voters             | 25,261 |
| Number of votes cast:                   |        |
| Last general election                   | 14,109 |
| Last city election                      | 4,324  |
| Percentage of registered voters voting: |        |
| Last general election                   | 56%    |
| Last city election                      | 17%    |

**City of Muskegon**  
**DEMOGRAPHIC STATISTICS**

**December 31, 2004**

**POPULATION**

|             |        |
|-------------|--------|
| 2000 Census | 40,105 |
| 1990 Census | 40,283 |
| 1980 Census | 40,823 |
| 1970 Census | 44,631 |

**MEDIAN AGE**

32.3

**AGE DISTRIBUTION**

|                   |        |
|-------------------|--------|
| Under 18 years    | 10,340 |
| 18-65 years       | 24,788 |
| 65 years and over | 4,977  |

**RACE AND ORIGIN**

|                                   |        |
|-----------------------------------|--------|
| White                             | 24,309 |
| Black                             | 12,701 |
| American Indian, Eskimo, or Aleut | 418    |
| Asian or Pacific Islander         | 195    |
| Hispanic                          | 1,078  |
| Other                             | 1,404  |

**HOUSING UNITS**

|                 |        |
|-----------------|--------|
| Total units     | 16,019 |
| Owner occupied  | 8,070  |
| Renter occupied | 6,700  |
| Vacant          | 1,249  |

**HOUSEHOLDS BY TYPE**

|                      |        |
|----------------------|--------|
| Total households     | 14,569 |
| Families             | 8,535  |
| Nonfamily households | 6,034  |

**ESTIMATED HOUSEHOLD INCOME**

|                      |       |
|----------------------|-------|
| \$75,000 or more     | 5.0%  |
| \$50,000 to \$74,999 | 8.0%  |
| \$35,000 to \$49,999 | 13.0% |
| \$25,000 to \$34,999 | 18.0% |
| \$15,000 to \$24,999 | 22.0% |
| \$7,500 to \$14,999  | 26.0% |
| Under \$7,500        | 8.0%  |

**FIVE LARGEST EMPLOYERS**

|                         |       |
|-------------------------|-------|
| Mercy General Hospital  | 2,017 |
| Hackley Hospital        | 1,300 |
| Muskegon County         | 1,200 |
| Muskegon Public Schools | 1,105 |
| Sappi Paper Company     | 594   |

**OCCUPATION**

|              |       |
|--------------|-------|
| White Collar | 48.0% |
| Blue Collar  | 52.0% |



City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2004

UNEMPLOYMENT RATE (CITY)

|      |       |
|------|-------|
| 1995 | 8.6%  |
| 1996 | 8.1%  |
| 1997 | 6.6%  |
| 1998 | 5.8%  |
| 1999 | 6.2%  |
| 2000 | 6.1%  |
| 2001 | 9.3%  |
| 2002 | 12.1% |
| 2003 | 13.9% |
| 2004 | 11.1% |

EDUCATION LEVEL

|                               |       |
|-------------------------------|-------|
| High School Diploma or Higher | 68.7% |
| College Degree or Higher      | 8.2%  |

MUSKEGON PUBLIC SCHOOL ENROLLMENT

|           |       |
|-----------|-------|
| 1996-1997 | 7,022 |
| 1997-1998 | 7,116 |
| 1998-1999 | 6,954 |
| 1999-2000 | 6,788 |
| 2000-2001 | 6,761 |
| 2001-2002 | 6,603 |
| 2002-2003 | 6,327 |
| 2003-2004 | 6,088 |
| 2004-2005 | 5,634 |

SOURCES: City of Muskegon Operating Departments, U.S. Census Bureau, Muskegon Area Intermediate School District, Michigan Department of Career Development.

City of Muskegon  
LABOR AGREEMENTS  
December 31, 2004

|   | <u>Expiration</u> | <u>Members</u> |
|---|-------------------|----------------|
| Muskegon Firefighters AFL-CIO Local #370<br>Firefighters            | 12/31/2004        | 41             |
| Command Officers Association of Michigan<br>Police Command Officers | 12/31/2006        | 15             |
| Police Officers' Labor Council<br>Police Patrol Officers            | 12/31/2006        | 61             |
| Service Employees International Union<br>Parks & DPW Employees      | 12/31/2004        | 76             |
| Clerical Employees  | 12/31/2005        | 27             |

SOURCE: City of Muskegon Finance Department

City of Muskegon

**SCHEDULE OF INSURANCE IN FORCE**

December 31, 2004

| Type of Coverage   | Policy Period |           | Annual Premium    | Details of Coverage  | Liability Limits  |
|--|---------------|-----------|-------------------|--|---|
|  | From          | To        |                   |  |   |
| <b><u>Coverages Provided Through the Michigan Municipal Risk Management Authority (MMRMA):</u></b> |               |           |                   |  |   |
| AUTO FLEET (PHYSICAL)  | 3/1/2004      | 2/28/2005 | <b>\$ 846,246</b> | <b>Total Premium for all MMRMA Coverages</b><br>Auto and Fleet Insurance               | Comprehensive: Actual Cash Value/\$1000 Deductible<br>Collision: Actual Cash Value/\$1,000 Deductible |
| BOILER & MACHINERY   | 3/1/2004      | 2/28/2005 |                   | Boiler and Machinery   | \$500,000 Limit per Accident  |
| EMPLOYEE BLANKET BOND  | 3/1/2004      | 2/28/2005 |                   | Honesty & Faithful Performance   | Honesty Blanket Bond: \$400,000<br>Faithful Performance Bond: \$100,000                               |
| CITY PROPERTY  | 3/1/2004      | 2/28/2005 |                   | Fire and building contents   | Building and contents valued at \$56,867,715; \$5,000 deductible                                      |
| LIABILITY COVERAGES  | 3/1/2004      | 2/28/2005 |                   | General Liability<br>Police Liability<br>Auto Liability<br>Public Officials' Liability | \$15,000,000 per occurrence;<br>\$100,000 retention   |
| INLAND MARINE  | 3/1/2004      | 2/28/2005 |                   | City owned contractors equipment   | Contractors Equipment \$1,600,850   |
| <b><u>Coverages Provided Through Other Insurers:</u></b>   |               |           |                   |  |   |
| FIDUCIARY LIABILITY<br>Stewart Smith/McAlear Associates<br>(Jerviss Fethke)                        | 3/1/2004      | 2/28/2005 | 6,750             | Fiduciary Liability Coverage for Members of Retirement System Boards                   | \$1,000,000 per occurrence;<br>\$10,000 deductible  |
| WORKERS' COMPENSATION<br>Michigan Municipal League<br>Workers' Compensation Fund                   | 7/1/2004      | 6/30/2005 | 285,424           | Work related injuries and illnesses  | As determined by state law  |
| STORAGE TANK LIABILITY<br>Zurich Insurance Co.<br>(IBEX)   | 2/22/2004     | 2/20/2005 | 350               | City owned storage tanks   | \$1,000,000 each occurrence<br>\$1,000,000 annual aggregate   |

SOURCE: City of Muskegon Finance Department

**City of Muskegon**  
**SALARIES OF PRINCIPAL OFFICIALS**  
**December 31, 2004**

|                    |          |
|--------------------|----------|
| Mayor              | \$ 7,500 |
| City Commissioners | 6,000    |
| City Manager       | 108,414  |

|                  |                        |
|------------------|------------------------|
| <b>Range I-A</b> | <b>67,302 - 89,736</b> |
|------------------|------------------------|

Director of Public Safety

|                |                        |
|----------------|------------------------|
| <b>Range I</b> | <b>62,910 - 83,381</b> |
|----------------|------------------------|

Assistant City Manager  
Finance Director  
Police Chief  
Public Works Director

|                 |                        |
|-----------------|------------------------|
| <b>Range II</b> | <b>58,097 - 77,463</b> |
|-----------------|------------------------|

Community & Economic Development Director  
Fire Chief  
Leisure Services Director

|                   |                        |
|-------------------|------------------------|
| <b>Range II-B</b> | <b>55,658 - 74,140</b> |
|-------------------|------------------------|

City Engineer/Deputy Director of Public Works

|                  |                        |
|------------------|------------------------|
| <b>Range III</b> | <b>53,220 - 70,817</b> |
|------------------|------------------------|

Assistant Police Chief  
City Clerk  
City Treasurer  
Information Systems Director  
Civil Service/Personnel Director  
Deputy Director of Public Safety for Fire Services

|                 |                        |
|-----------------|------------------------|
| <b>Range IV</b> | <b>45,844 - 61,125</b> |
|-----------------|------------------------|

Assistant Finance Director  
Assistant City Engineer  
Deputy Director of Community & Economic Development  
Neighborhood & Construction Services Director  
Income Tax Director

|                |                        |
|----------------|------------------------|
| <b>Range V</b> | <b>43,878 - 58,507</b> |
|----------------|------------------------|

Affirmative Action Director  
Community & Neighborhood Services Director  
Water Filtration Plant Supervisor

SOURCE: City of Muskegon Finance Department

**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 7, 2005

City Commission  
City of Muskegon  
Muskegon, Michigan

We have audited the financial statements of City of Muskegon as of and for the year ended December 31, 2004 and have issued our report thereon dated March 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City of Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### ***Compliance***

As part of obtaining reasonable assurance about whether the City of Muskegon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

BRICKLEY DELONG

City Commission  
March 7, 2005  
Page 2

This report is intended solely for the information of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 7, 2005

City Commission  
City of Muskegon  
Muskegon, Michigan

### **Compliance**

We have audited the compliance of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Muskegon's management. Our responsibility is to express an opinion on the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Muskegon's compliance with those requirements.

In our opinion, the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.



City Commission  
March 7, 2005  
Page 2

***Internal Control Over Compliance***

The management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLL*

City of Muskegon  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended December 31, 2004

| <u>Federal grantor/pass-through<br/>grantor/program title</u> | <u>Federal<br/>CFDA<br/>number</u> | <u>Entitlement<br/>program or<br/>award<br/>amount</u> | <u>Accrued<br/>(deferred)<br/>revenue<br/>January 1,<br/>2004</u> | <u>Cash or<br/>payments in<br/>kind received<br/>(cash basis)</u> | <u>Amount of<br/>grant<br/>expenditures</u> | <u>Accrued<br/>(deferred)<br/>revenue<br/>December 31,<br/>2004</u> | <u>Note</u> |
|---|------------------------------------|--|---|---|---|---|-------------|
| <b>U.S. Department of Agriculture</b>                         |                                    |  |   |   |   |   |             |
| Passed through the Michigan Department of Natural Resources   |                                    |  |   |   |   |   |             |
| Tree Planting Program   | 10.664                             |  |   |   |   |   |             |
| CFG 04-17   |                                    | \$ 4,000   | \$ -  | \$ 4,000  | \$ 4,000                                    | \$ -  |             |
| <b>U.S. Department of Housing and Urban Development</b>       |                                    |  |   |   |   |   |             |
| Direct programs   |                                    |  |   |   |   |   |             |
| Community Development Block Grant                             | 14.218                             |  |   |   |   |   |             |
| B-03-MC-26-0026   |                                    | 1,217,000  | (3,472)   | 865,508   | 868,980                                     | -   |             |
| B-04-MC-26-0026   |                                    | 1,212,000  | -   | 163,983   | 386,460                                     | 222,477   |             |
| Program Income  |                                    | 116,055  | -   | 116,055   | 116,055                                     | -   |             |
| Total Community Development Block Grant                       |                                    | 2,545,055  | (3,472)   | 1,145,546   | 1,371,495                                   | 222,477   |             |
| Direct programs   |                                    |  |   |   |   |   |             |
| Home Investment Partnership Program                           | 14.239                             |  |   |   |   |   |             |
| M-96-MC-26-0215   |                                    | 454,000  | -   | -   | 75  | 75  |             |
| M-97-MC-26-0215   |                                    | 444,000  | 7,563   | 7,608   | 108   | 63  |             |
| M-99-MC-26-0215   |                                    | 514,000  | 246,108   | 246,108   | -   | -   |             |
| M-00-MC-26-0215   |                                    | 514,000  | 26,582  | 163,808   | 283,102                                     | 145,876   |             |
| M-01-MC-26-0215   |                                    | 572,000  | 38,324  | 38,433  | 109   | -   |             |
| M-02-MC-26-0215   |                                    | 133,342  | 6,885   | 59,807  | 52,922                                      | -   |             |
| M-03-MC-26-0215   |                                    | 340,111  | 9,885   | 70,731  | 174,698                                     | 113,852   |             |
| M-04-MC-26-0215   |                                    | 337,937  | -   | 7,230   | 76,509                                      | 69,279  |             |
| Program Income  |                                    | 469,503  | -   | 469,503   | 176,737                                     | (292,766)   |             |
| Total Home Investment Partnership Program                     |                                    | 3,778,893  | 335,347   | 1,063,228   | 764,260                                     | 36,379  |             |
| Total U.S. Department of Housing and<br>Urban Development     |                                    | 6,323,948  | 331,875   | 2,208,774   | 2,135,755                                   | 258,856   |             |

City of Muskegon  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended December 31, 2004

|   | Federal<br>CFDA<br>number | Entitlement<br>program or<br>award<br>amount | Accrued<br>(deferred)<br>revenue<br>January 1,<br>2004 | Cash or<br>payments in<br>kind received<br>(cash basis) | Amount of<br>grant<br>expenditures | Accrued<br>(deferred)<br>revenue<br>December 31,<br>2004 | Note |
|---|---------------------------|--|--|---|------------------------------------|--|------|
| Federal grantor/pass-through<br>grantor/program title |                           |  |  |   |                                    |  |      |
| <b>U.S. Department of Justice</b>                     |                           |  |  |   |                                    |  |      |
| Passed through the Michigan Family Independent Agency |                           |  |  |   |                                    |  |      |
| Juvenile Justice Grant                                | 16.548                    |  |  |   |                                    |  |      |
| 431B3001915   |                           | \$ 24,990                                    | \$ 3,065   | \$ 14,228   | \$ 11,163                          | \$ -   |      |
| DP-05-61001   |                           | 90,000                                       | -  |   | 11,685                             | 11,685   |      |
| Total Juvenile Justice Grant                          |                           | 114,990                                      | 3,065  | 14,228  | 22,848                             | 11,685   |      |
| Passed through the City of Holland                    | 16.579                    |  |  |   |                                    |  |      |
| WEMET Multi-Jurisdictional Drug                       |                           |  |  |   |                                    |  |      |
| Enforcement CO-OP                                     |                           |  |  |   |                                    |  |      |
| 70834-503B  |                           | 40,337                                       | 11,475   | 40,337  | 28,862                             | -  |      |
| 70834-604B  |                           | 35,752                                       | -  | -   | 13,148                             | 13,148   |      |
| Total WEMET Multi-Jurisdictional                      |                           | 76,089                                       | 11,475   | 40,337  | 42,010                             | 13,148   |      |
| Drug Enforcement CO-OP                                |                           |  |  |   |                                    |  |      |
| Direct programs                                       |                           |  |  |   |                                    |  |      |
| Law Enforcement Block Grant                           | 16.592                    |  |  |   |                                    |  |      |
| 2002-LB-BX-2836                                       |                           | 62,710                                       | (39,783)   | -   | 39,783                             | -  |      |
| 2003-LB-BX-2769                                       |                           | 47,639                                       | (47,639)   | -   | 26,083                             | (21,556)   |      |
| 2004-LB-BX-1240                                       |                           | 23,331                                       | -  | 23,331  | -                                  | (23,331)   |      |
| Total Law Enforcement Block Grant                     |                           | 133,680                                      | (87,422)   | 23,331  | 65,866                             | (44,887)   |      |
| Passed through the Urban League of Greater Muskegon   |                           |  |  |   |                                    |  |      |
| Weed and Seed   | 16.595                    |  |  |   |                                    |  |      |
| 2003-WS-QX-0711                                       |                           | 16,375                                       | -  | 7,485   | 7,485                              | -  |      |
| Direct programs                                       |                           |  |  |   |                                    |  |      |
| Bulletproof Vest Partnership Grant                    | 16.607                    |  |  |   |                                    |  |      |
| 2003 Grant  |                           | 2,161  | -  | 221   | 221                                | -  |      |
| Total U.S. Department of Justice                      |                           | 343,295                                      | (72,882)   | 85,602  | 138,430                            | (20,054)   |      |

City of Muskegon  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended December 31, 2004

| Federal grantor/pass-through<br>grantor/program title                      | Federal<br>CFDA<br>number | Entitlement<br>program or<br>award<br>amount | Accrued<br>(deferred)<br>revenue<br>January 1,<br>2004 | Cash or<br>payments in<br>kind received<br>(cash basis) | Amount of<br>grant<br>expenditures | Accrued<br>(deferred)<br>revenue<br>December 31,<br>2004 | Note |
|--|---------------------------|--|--|---|------------------------------------|--|------|
| <b>U.S. Department of Transportation, Federal Highway Administration</b>   |                           |  |  |   |                                    |  |      |
| Passed through the Michigan Department of Transportation                   |                           |  |  |   |                                    |  |      |
| Highway Planning and Construction Program                                  | 20.205                    |  |  |   |                                    |  |      |
| Proj STP0161 (224) Fed Item TT0096 Contract 02-5431                        |                           | \$ 200,000                                   | \$ 10,527  | \$ 10,527   | \$ -                               | \$ -   |      |
| Proj STP0361 (020) Fed Item HH3544 Contract 03-5204                        |                           | 366,000                                      | -  | 14,470  | 14,470                             | -  | 2    |
| Proj STP0261 (338) Fed Item RR3306 Contract 03-5336                        |                           | 240,000                                      | -  | 137,178   | 240,000                            | 102,822  |      |
| Proj STP0461 (308) Fed Item HH3843 Contract 04-5014                        |                           | 355,830                                      | -  | 229,601   | 229,601                            | -  | 2    |
| Proj STP0461 (311) Fed Item HH3958 Contract 04-5202                        |                           | 552,354                                      | -  | 535,783   | 535,783                            | -  | 2    |
| Total U.S. Department of Transportation,<br>Federal Highway Administration |                           | 1,714,184                                    | 10,527   | 927,559   | 1,019,854                          | 102,822  |      |
| <b>Environmental Protection Agency</b>                                     |                           |  |  |   |                                    |  |      |
| Passed through Michigan Department of Environmental Quality                |                           |  |  |   |                                    |  |      |
| Drinking Water State Revolving Fund  | 66.468                    |  |  |   |                                    |  |      |
| Project 7142-01  |                           | 13,900,000                                   | -  | 4,500,050   | 4,500,050                          | -  |      |
| <b>U.S. Federal Emergency Management Administration</b>                    |                           |  |  |   |                                    |  |      |
| Direct programs  |                           |  |  |   |                                    |  |      |
| Assistance to Firefighters Grant Program                                   | 83.554                    |  |  |   |                                    |  |      |
| EMW-2003-FG-11430  |                           | 129,875                                      | -  | 117,576   | 117,576                            | -  |      |
| <b>U.S. Department of Health and Human Services</b>                        |                           |  |  |   |                                    |  |      |
| Passed through Michigan Department of Social Services                      |                           |  |  |   |                                    |  |      |
| Enterprise Community - Title XX  | 93.585                    |  |  |   |                                    |  |      |
| Human Service Grant  |                           |  |  |   |                                    |  |      |
| EC/EZ-95-61001   |                           | 2,947,368                                    | 34,934   | 45,693  | 21,912                             | 11,153   |      |
| <b>TOTAL FEDERAL ASSISTANCE</b>  |                           | <b>\$ 25,362,670</b>                         | <b>\$ 304,454</b>                                      | <b>\$ 7,889,254</b>                                     | <b>\$ 7,937,577</b>                | <b>\$ 352,777</b>  |      |

**Notes:**

- See the financial statements footnotes for accounting policies used in preparing this schedule.
- These programs are administered by the Michigan Department of Transportation and federal compliance reports of these programs are included in the single audit of MDOT.

City of Muskegon  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2004

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Muskegon.
2. No reportable conditions in internal control were disclosed by the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Muskegon were disclosed during the audit.
4. No reportable conditions in internal control were disclosed by the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Muskegon expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

| <u>Name</u>  | <u>CFDA<br/>Number</u> |
|--|------------------------|
| <i>U.S. Department of Housing and Urban Development<br/>Home Investment Partnership Program</i>                        | 14.239                 |
| <i>U.S. Department of Transportation<br/>Highway Planning and Construction Program</i>                                 | 20.205                 |
| <i>Environmental Protection Agency<br/>Drinking Water State Revolving Fund Program</i>                                 | 66.468                 |
| <i>U.S. Department of Federal Emergency Management<br/>Administration<br/>Assistance to Firefighters Grant Program</i> | 83.554                 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Muskegon was not determined to be a low-risk auditee.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

NONE

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

NONE

**SUPPLEMENTAL INFORMATION**

**BRICKLEY DELONG**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION**

March 7, 2005

City Commission  
City of Muskegon  
Muskegon, Michigan

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2004 and have issued our report thereon dated March 7, 2005. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 151 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of the City of Muskegon and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Brickley DeLong, PLLC*

City of Muskegon  
**SCHEDULE OF RECONCILIATION OF REVENUES FROM FEDERAL SOURCES  
PER FINANCIAL STATEMENTS AND EXPENDITURES PER SINGLE AUDIT  
REPORT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended December 31, 2004

The following is a reconciliation of federal revenues as reported on page 36 of the City of Muskegon financial statements for the year ended December 31, 2004 and federal expenditures per the Schedule of Expenditures of Federal Awards on page 147 of this single audit report.

|  |                            |
|--|----------------------------|
| Federal revenues per City of Muskegon financial statements<br>for the year ended December 31, 2004 (page 36)             |                            |
| General Fund   | \$ 233,158                 |
| Major Street and Trunkline Fund  | 779,854                    |
| Other Governmental Funds   | <u>2,131,723</u>           |
|  | 3,144,735                  |
| Plus program income  | 292,792                    |
| Plus federal loans   | <u>4,500,050</u>           |
| Federal assistance expenditures and operating transfers out per<br>Schedule of Expenditures of Federal Awards (page 147) | \$ <u><u>7,937,577</u></u> |



**CLIENT DOCUMENTS**

Affirmative Action  
(231)724-6703  
FAX (231)722-1214

Assessor  
(231)724-6708  
FAX (231)726-5181

Cemetery  
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FAX (231)726-5617

City Manager  
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FAX (231)722-1214

Civil Service  
(231)724-6716  
FAX (231)724-4405

Clerk  
(231)724-6705  
FAX (231)724-4178

Comm. & Neigh.  
Services  
(231)724-6717  
FAX (231)726-2501

Engineering  
(231)724-6707  
FAX (231)727-6904

Finance  
(231)724-6713  
FAX (231)724-6768

Fire Department  
(231)724-6792  
FAX (231)724-6985

Income Tax  
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Info. Technology  
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FAX (231)722-4301

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FAX (231)728-4371

Leisure Services  
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FAX (231)724-1196

Mayor's Office  
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FAX (231)722-1214

Planning/Zoning  
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FAX (231)724-6790

Police Department  
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FAX (231)722-5140

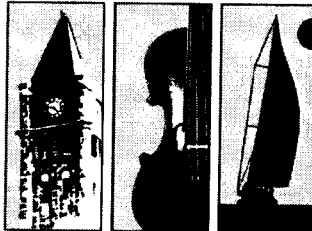
Public Works  
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Treasurer  
(231)724-6720  
FAX (231)724-6768

Water Billing  
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Water Filtration  
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FAX (231)755-5290

## MUSKEGON



West Michigan's Shoreline City  
[www.shorelinecity.com](http://www.shorelinecity.com)

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

March 7, 2005

U.S. Department of Housing and Urban Development  
Detroit, Michigan

City of Muskegon respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended December 31, 2003 dated March 15, 2004.

#### B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were no findings related to the financial statements which were required to be reported.

#### C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

##### COMPLIANCE

##### 2003 Finding No. 1: U.S. Department of Housing and Urban Development

HOME Investment Partnership Program—CFDA No. 14.239

Grant No. M98MC2-60215 Grant period: June 1, 1998 through May 31, 1999

Grant No. M01MC2-60215 Grant period: June 1, 2001 through May 31, 2002

Grant No. M02MC2-60215 Grant period: June 1, 2002 through May 31, 2003

Community Development Block Grant - Entitlement Grant—CFDA No. 14.218  
Grant No. B03MC2-60026 Grant period: June 1, 2003 through May 31, 2004

**Condition:** In five contract files tested, the lowest bidder was not selected for the project. The files did not contain required documentation supporting the rejection of the lowest bid.

**Recommendation:** Policies and procedures need to be put in place to provide reasonable assurance that contract files contain all required documentation. Periodic reviews need to be conducted to determine that contract files contain all required documentation.

**Current Status:** The recommendation was implemented. **No** similar finding was reported during the single audit for the year ended December 31, 2004.

U.S. Department of Housing and Urban Development  
March 7, 2005  
Page 2

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**REPORTABLE CONDITIONS**

There were *no* reportable conditions in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Paul', enclosed within a large, loopy oval shape.

Timothy J. Paul  
Finance Director

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# MUSKEGON



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## CORRECTIVE ACTION PLAN

March 7, 2005

U.S. Department of Housing and Urban Development  
Detroit, Michigan

The City of Muskegon respectfully submits the following Corrective Action Plan for the year ended December 31, 2004.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: December 31, 2004

The findings from the Schedule of Findings and Questioned Costs for the year ended December 31, 2004 provided **no** findings in either Section B or Section C. Accordingly, there are **no** matters requiring corrective action as shown below.

### B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were **no** compliance findings and **no** reportable conditions.

### C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were **no** compliance findings and **no** reportable conditions in relation to the major federal award programs.

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Timothy J. Paul at (231) 724-6709.

Sincerely,

Timothy J. Paul  
Finance Director